Directors' Report

The Directors of The Rank Group Plc submit their Report and Statement of Accounts for the year ended 31 December 1996. The Rank Group Plc was incorporated in the United Kingdom on 22 December 1995 and following implementation of a scheme of arrangement under S.425 Companies Act 1985 acquired 100% of the issued share capital of The Rank Organisation Plc on 7 October 1996. Prior to this date, the Company did not trade and had no assets, other than nominal cash balances, and no liabilities. Merger accounting principles have been used and the results have been presented as if the new Group had been established throughout the current and comparative accounting periods.

Principal activities and business review

Rank is a leisure and entertainment company and an international provider of services to the film industry. Its leisure and entertainment activities include gaming, cinemas, nightclubs, themed bars, pub-restaurants and multi-leisure centres; holidays; and Hard Rock cafes and brand rights internationally. Rank also owns film processing and video duplication facilities. Rank operates primarily in the UK and North America although it also has activities in continental Europe and other parts of the world.

Rank has a 50% investment with Universal Studios Inc. in Universal City Florida, a major theme park and development at Orlando, Florida and has an investment in the Rank Xerox companies. The Board of Directors has determined that it no longer intends to hold the Rank Xerox interests for the long term.

The following were the principal acquisitions made during the year. In June, Rank acquired the Hard Rock cafes and rights to the Hard Rock brand owned by Peter Morton and partners for US$410 million. In July, Rank acquired the Duplico group, Europe's third largest video duplicator, for £29 million. In October, Rank acquired Tom Cobleigh plc for £123 million and, in December, Rank acquired Hard Rock Cafe Canada for US$61 million.

The following principal disposals took place during the year. In April, the sale of The Royal Garden Hotel was completed for a total consideration of £62 million. In September, Rank sold the Rank Precision Industries group of companies for £66 million. In December, Rank sold Kingston Plantation for £30 million, Shearings Limited for £75 million, and its inland amusement arcade business for £25 million.

Profit and dividends

Profit before tax for the year was £65 million (1995 proforma £644 million). The loss for the year after tax and minority interests was £34 million (1995 proforma profit £517 million).

The Directors recommend a final dividend of 12.00 pence per Ordinary share which, together with the interim dividend of The Rank Organisation Plc of 5.00 pence already paid, makes a total for the year of 17.00 pence per share (1995 15.75 pence for the fourteen months ended 31 December 1995).

Subject to approval at the Annual General Meeting, the final dividend will be paid on 23 April 1997 to those shareholders whose names are on the register on 1 April 1997.

Fixed assets

It has been decided to revert to the historical cost basis in determining the carrying values of land and buildings. Accordingly, the net book amount of land and buildings at 31 December 1995 was reduced by £154 million. The Directors, under advice from Messrs. Knight Frank, Chartered Surveyors, considered the net book amounts of individual properties at 31 December 1996 and have decided to write down certain properties by a further £148 million in respect of permanent diminution in value. The Directors also considered the total net book amount of land and buildings and are of the opinion that it is not significantly different from market value at 31 December 1996.

Share capital

Details of the scheme of arrangement pursuant to which The Rank Group Plc acquired The Rank Organisation Plc were set out in the circular to shareholders dated 16 August 1996.

Details of the new Ordinary shares issued pursuant to the exercise of options under The Rank Organisation Plc's share option schemes are set out in note 22 on page 74. Note 22 also contains details of the Ordinary shares in The Rank Organisation Plc issued pursuant to the conversion of its Convertible Preference shares which by virtue of the scheme of arrangement were exchanged for Ordinary shares in the Company.

A resolution will be proposed at the Annual General Meeting to authorise the Directors to allot and grant rights over the unissued share capital and to authorise the Directors to allot and grant rights over Ordinary shares for cash up to a maximum nominal amount of £4,184,382 representing 5% of the issued Ordinary share capital without first making a pro rata offer to all existing Ordinary shareholders. Similar resolutions have previously been passed in respect of The Rank Organisation Plc.

A resolution will also be proposed at the Annual General Meeting to authorise the Company to purchase up to 10% of its Ordinary shares at or between the minimum and maximum prices specified in the resolution set out in the Notice of Meeting. This power would only be used after careful consideration by the Directors, having taken into account market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The authority would also only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchase could be expected to result in an increase in earnings per share

Directors' Report

Directors

With the exception of Mme C. Morin-Postel, the Directors listed on pages 28 and 29 of the Review and Financial Summary were appointed as Directors of the Company on 23 July 1996; Mme C. Morin-Postel was appointed a Director on 1 October 1996. Mr. T. H. North retired as a Director on 31 December 1996.

All the Directors will retire at the Annual General Meeting, as they were all appointed as Directors during 1996, and with the exception of Dr. D. V. Atterton and Mr. M. C. J. Jackaman, who are retiring at the conclusion of the Annual General Meeting, being eligible, offer themselves for reappointment. Mr. A. W. P. Stenham is Chairman of the Audit Committee and Mr. H. R. Jenkins and Mme C. Morin-Postel are members of the Audit Committee. Mr. P. J. Jarvis is Chairman of the Remuneration Committee and Mr. J. A. Harmon is a member of the Remuneration Committee. None of the non-executive Directors has a service agreement with the Company. Sir Denys Henderson has a service agreement with the Company for an initial period expiring on 28 February 1998. The executive Directors have service agreements with the Company which are terminable by either party on not less than two years' notice save that in the case of Mr. A. H.Teare the earliest date for expiration of any notice is 1 April 1999.

The interests of the Directors in shares of the Company and their share options, together with their remuneration, are contained in the Report of the Remuneration Committee set out on pages 39 to 43 with a summary in note 29 on pages 79 and 80.

Personnel

In October, the Group introduced an initiative to improve the development of senior and middle management in order to more clearly identify the future skills needed. Its intention is also to broaden the experience of senior management and increase the ability to promote from within.

Employee involvement has been further encouraged by another successful year for the Enterprise and Innovation Awards scheme with over 1,000 entries. Communication continued with an annual employee report being published outlining the achievements of the Group in 1995 and the plans for 1996. Proposals for appointing member trustees of the two UK Rank pension arrangements as required by the Pensions Act 1995 were published with the most recent Pensions Annual Reports and have subsequently been accepted. It is planned to have member trustees in place by the middle of 1997.

The Group continues to operate an effective equal opportunities policy, and full briefing has been given on the new Disability Discrimination Act 1995 and its specific codes of practice which came into effect during 1996. A number of subsidiary companies supported research by SCOPE into the provision of quality services for disabled customers in the light of the new Act. The employment, training and development of people with disabilities continues to form a key part of the Group's overall employment policy and practice.

Payment of suppliers

The Company and its subsidiaries agree terms and conditions for their business transactions with their suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier.

Significant shareholdings

At the date of this Report the Company is aware or has been notified of holdings of more than 3% of the Company's issued Ordinary share capital by Prudential Portfolio Managers Limited (36,429,941 – 4.4%), Chase Nominees Limited (29,573,294 – 3.5%) and Schroder Nominees Limited (27,601,214 – 3.3%).

The Company is not aware of any other person who is interested whether directly or indirectly in 3% or more of the issued Ordinary share capital of the Company.

Charitable and political donations

Charitable donations made in the UK during the year amounted to £372,000. Overseas companies supported a variety of local and national charities and, in particular, Hard Rock Cafe International Inc. donated approximately US$650,000, continuing its focus on humanitarian and environmental causes. The Company made no political donations in the year.

Auditors

During the year KPMG Audit Plc resigned as auditors and were replaced by Price Waterhouse. A resolution will be proposed at the Annual General Meeting for the reappointment of Price Waterhouse as auditors of the Company.

By Order of the Board

Charles B. A. Cormick

Secretary, The Rank Group Plc, Registered No. 3140769

26 February 1997

Report to the Shareholders by the Remuneration Committee

THE REMUNERATION COMMITTEE

The Remuneration Committee is comprised solely of non-executive Directors who bring a wide range of experience from other organisations. The Committee is chaired by Mr. Peter Jarvis, Chief Executive of Whitbread Plc, and its other members are Dr. David Atterton, Chairman of Guinness Mahon Holdings plc, and Mr. James Harmon, former Chairman of Schroder Wertheim & Co. Inc. They have no personal financial interest other than as shareholders in the matters to be decided, no potential conflict of interest arising from cross directorships and no day to day involvement in running the business of the Group.

The Committee is a Committee of the Board of Directors and has been established with formal terms of reference approved by the Board. It has specific authority to determine the appropriate remuneration, benefits and employment conditions for the Chairman of the Company and the executive Directors and regularly reviews the Company's remuneration policies and practices. In determining appropriate remuneration the Committee consults with both internal and external professional advisers.

The Chairman and Chief Executive are in attendance at Committee meetings except for when their own remuneration is being considered.

COMPLIANCE

The Company has complied throughout the year ended 31 December 1996 with Section A of the best practice provisions regarding remuneration committees annexed to the Listing Rules of the London Stock Exchange and, in framing its remuneration policy, the Committee has given full consideration to Section B of the best practice provisions regarding remuneration policy, service contracts and compensation.

COMPANY POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

The Company's policy is to ensure that the Chairman and the executive Directors are rewarded competitively in relation to other companies in order to attract, retain and motivate them to meet the reasonable expectations of shareholders.

The Company's aim is to provide a competitive remuneration package for executive Directors and this currently contains a balance between short-term rewards consisting of basic salary, benefits and an annual bonus scheme, and long-term rewards consisting of share options and a long-term incentive plan.

During the year, the Committee considered the appropriateness of the Group's remuneration policy as set out in the 1995 Review and Financial Summary of The Rank Organisation Plc, in light of developments since publication of the Greenbury Report in July 1995. The Committee paid particular attention to its stated policy with regard to annual bonus payments, executive share options, long term incentive plans, Directors' service agreements and pensionability of annual bonus payments. The Committee concluded that its policy regarding the first four of these items accorded with competitive practice but agreed that a change in policy regarding pensionability of annual bonus payments was desirable. This change is detailed on page 43.

Annual Salary and Benefits

The Remuneration Committee continues to follow the broad principle that basic salaries should be paid at the median level in comparison with comparable jobs in selected relevant companies. For guidance the Committee uses published job matched surveys undertaken by professional remuneration consultants and in addition in 1996 the Committee commissioned its own independent review of remuneration of Rank Directors.

Benefits include a car, or cash allowance in lieu, and life, disability and health insurance.

Annual Bonus

The annual bonus scheme operated in the year provided for cash bonuses in the range nil to 45% of basic salary. The criteria of the scheme reflect the individual responsibility of the Directors and comprised pre-tax profit or divisional profit before exceptional items, return on net assets and growth in earnings per share before exceptional items. The bonus for the Chief Executive was guaranteed in his first year of office.

Following a review of competitive practice, with effect from 1 January 1997, the maximum bonus has been increased to 50% of basic salary and an element of the bonus is now related to the use of capital in the business. This element has replaced the previous criterion of return on net assets. The criteria for the Chief Executive are now the same as for other executive Directors

The Committee considers that the performance conditions applying to the annual bonus scheme are relevant, stretching and designed to enhance the business and that this results-driven approach is in the interests of shareholders. The details of bonuses earned in the year are contained in the table on page 42.

Share Option Schemes

Rank has operated an executive share option scheme for Directors and other senior managers since 1985, with some 660 executives participating. During the year the Committee reviewed its policy with regard to executive share options. The Committee concluded that it was appropriate to retain an executive share option scheme but that for the time being no grants would be made to members of the Executive Committee, which includes all the executive Directors, to replace any options exercised. This decision will be reviewed periodically in the light of competitive market practice and the appropriateness of Rank's long term incentive arrangements in total. Mr. Teare was however granted an option over 165,118 shares following his appointment as Chief Executive, and an additional option over 195,647 shares on 21 February 1997.

Report to the Shareholders by the Remuneration Committee

The Company has decided to amend its policy with regard to the level of allocation and frequency of grant of options to those employees below the Executive Committee to one of regular annual grants of smaller allocations in line with the recommendations of the Greenbury Report.

During the year, as a result of the scheme of arrangement referred to in the Directors' Report, executive share options held by executive Directors over Ordinary shares in The Rank Organisation Plc were replaced by options over an identical number of Ordinary shares in The Rank Group Plc. These options will only become exercisable if the Committee determines that earnings per share before exceptional items of the Group over a three year period have shown average annual growth of at least 2% over the increase in the UK retail prices index over that period.

Rank has also operated Save As You Earn Option Schemes since 1985 which are generally open to all full time employees and Directors who have completed one year's continuous service. Since 1985 over 7,000 employees have participated in the schemes. Inland Revenue rules limit the maximum amount which can be saved to £250 per month. Options are granted to acquire the number of shares that the total savings will buy when the savings contract matures. Options are offered at a 20% discount to the market price at the commencement of the savings contract, in accordance with the rules of the schemes. The scheme of arrangement, previously referred to, triggered the early exercisability of options outstanding under The Rank Organisation Share Savings Scheme introduced in 1985 but participants in The Rank Organisation 1995 Share Savings Scheme were given the opportunity to exchange their options for new options over Ordinary shares in The Rank Group Plc.

The Directors' interests in shares or stocks of the Company, including options to purchase Ordinary shares under the terms of the Group's Executive Share Option Schemes ("ESOS") and Share Saving Schemes ("SAYE") given below relate to the Ordinary and convertible preference shares of The Rank Organisation Plc up to and including 6 October 1996 and to the Ordinary and convertible preference shares of the Company thereafter.

Options relating to Ordinary shares in the Company are headed "RG" and options relating to Ordinary shares in The Rank Organisation Plc are headed "RO". If exercised, these latter options will result in the allotment of Ordinary shares in the Company.

Directors' Interests	31 December 1996					1 January 1996 (or date of appointment if later)				Exercise Price
	Ordinary Shares	Preference Shares	ESOS RG	SAYE RG	SAYE RO	Ordinary Shares	Preference Shares	ESOS	SAYE	(p)
Dr. D. V. Atterton	8,240	–	–	–	3,850	8,242	–	–	3,850	194.78
	–	–	–	–	3,047	–	–	–	3,047	226.20
	–	–	–	1,008	–	–	–	–	1,008	342.00
Mr. J. F. Garrett	83,500	–	208,840	–	–	83,500	–	208,840	–	373.50
Mr. J. A. Harmon	102,500	–	–	–	–	32,500	–	–	–	–
Sir Denys Henderson	50,000	10,000	–	–	–	50,000	10,000	–	–	–
Mr. M. C. J. Jackaman	1,000	–	–	–	1,925	1,000	–	–	1,925	194.78
Mr. P. J. Jarvis	5,000	–	–	–	–	2,500	–	–	–	–
Mr. H. R. Jenkins	2,300	10,000	–	–	–	2,300	10,000	–	–	–
Mme. C. Morin-Postel	–	–	–	–	–	–	–	–	–	–
Mr. T. H. North	29,730	–	93,340	–	–	14,484	–	93,340	–	373.50
	–	–	27,695	–	–	–	–	27,695	–	427.50
	–	–	–	–	–	–	–	85,342	–	366.73
	–	–	–	–	–	–	–	–	5,442	206.56
	–	–	–	–	–	–	–	–	3,850	194.78
Mr. A. W. P. Stenham	15,000	–	–	–	3,850	11,450	–	–	3,850	194.78
	–	–	–	–	3,047	–	–	–	3,047	226.20
	–	–	–	1,008	–	–	–	–	1,008	342.00
Mr. A. H. Teare	50,000	20,000	165,118	–	–	30,000	–	–	–	484.50
Mr. N. V. Turnbull	29,070	–	161,680	–	–	29,441	–	161,680	–	373.50
	–	–	41,198	–	–	–	–	41,198	–	427.50
	–	–	–	1,008	–	–	–	–	1,008	342.00
	–	–	–	–	–	–	–	–	3,850	194.78
	–	–	–	–	–	–	–	–	3,047	226.20
Mr. D. M. Yates	38,962	–	208,840	–	–	30,926	–	208,840	–	373.50
	–	–	–	3,026	–	–	–	–	3,026	342.00
	–	–	–	–	–	–	–	–	3,850	194.78

Report to the Shareholders by the Remuneration Committee

Options to subscribe for Ordinary shares of the Company (and where applicable The Rank Organisation Plc) granted to and exercised by Directors, or which lapsed, in the year ended 31 December 1996 are included in the table below.

	Granted		Lapsed		Exercised		Price per option	Market price at date of exercise
	ESOS	SAYE	ESOS	SAYE	ESOS	SAYE	(p)	(p)
Mr. T. H. North	–	–	–	–	85,342	–	366.73	538
	–	–	–	–	–	5,442	206.56	539.5
	–	–	–	940	–	2,910	194.78	442
Mr. A. H. Teare	165,118	–	–	–	–	–	484.50	–
Mr. N. V. Turnbull	–	–	–	1,066	–	2,784	194.78	446.5
	–	–	–	1,337	–	1,710	226.20	446.5
Mr. D. M. Yates	–	–	–	1,003	–	2,847	194.78	412

In addition to the above interests, pursuant to the provisions of the Companies Act 1985, each executive Director is deemed to be interested in the Ordinary shares and options over Ordinary shares of the Company held by The Rank Group Plc Employee Benefit Trust. As at the date of this report and 31 December 1996, the interest was in a total of 145,739 Ordinary shares and options over 3,500,000 Ordinary shares and as at 1 January 1996 it was in nil shares and in nil options.

Long-Term Incentive Plan

The Committee continued the long-term incentive plan introduced with effect from January 1995 for executive Directors and certain senior managers. Each participant including executive Directors will receive an award under the plan if the Company's growth in earnings per share before exceptional items exceeds the increase in the UK retail prices index by at least 3% on an annual basis over a performance period of three years. The award will consist of a grant of a free option over Rank Ordinary shares; the option can be exercised at the end of the two years following the three year performance period. The value of the shares will be related to a percentage of basic salary. Shares to the value of 10% of salary will be awarded for a 3% compound real growth up to an award of 100% of salary for a 21% compound real growth.

Whilst those executive Directors who were Directors throughout the year were again invited to participate in a new three year performance period of the plan in 1996, following participation in the first three year performance period commencing in 1995, there were no entitlements or awards granted or commitments made to any Director under the plan during the year. Another new three year performance period commenced in January 1997.

REMUNERATION

The remuneration of the Chairman and all Directors in the year is detailed on page 42. In addition to his emoluments, Mr. H. A. Crichton-Miller received £370,000 compensation for loss of office and Rank enhanced the capital value of his pension benefits by £160,000. These amounts were agreed in light of Mr. Crichton-Miller's age on departure and the loss of pension benefits which would otherwise have accrued during his contractual notice period of two years.

The Greenbury Committee recommended that the value of pension entitlements earned by Directors during a financial year should be disclosed in annual reports rather than pension contributions paid by a company. Whilst the London Stock Exchange has yet to amend its Listing Rules to make such disclosure obligatory, the table gives details of the value of pension entitlements earned during the year in accordance with the recommendation of the Institute and Faculty of Actuaries.

Report to the Shareholders by the Remuneration Committee

Directors' Emoluments
Chairman and executive Directors

	Basic Salary		Benefits		Bonus		Total Emoluments excluding Pensions	
	1996 £000	1995 Proforma £000	1996 £000	1995 Proforma £000	1996 £000	1995 Proforma £000	1996 £000	1995 Proforma £000
Mr. H. A. Crichton-Miller†	145	197	14	19	39	79	198	295
Mr. J. Daly††	82	197	9	9	23	88	114	294
Sir Leslie Fletcher	–	54	–	–	–	–	–	54
Mr. J. F. Garrett	217	197	10	7	56	23	283	227
Mr. M. B. Gifford††	144	400	12	12	–	180	156	592
Sir Denys Henderson	250	212	18	1	–	–	268	213
Mr. T. H. North	222	197	8	8	94	72	324	277
Mr. A. H. Teare	311	–	–	–	75	–	386	–
Mr. N. V. Turnbull	214	197	21	20	62	77	297	294
Mr. D. M. Yates	214	197	12	10	62	77	288	284

Non-executive Directors' Emoluments

	1996 £000	1995 Proforma £000
Dr. D. V. Atterton	25	25
Mr. J. A. Harmon	25	25
Mr. M. C. J. Jackaman	25	25
Mr. P. J. Jarvis	29	24
Mr. H. R. Jenkins	25	6
Mme C. Morin-Postel†††	6	–
Mr. A. W. P. Stenham	29	26

Pension Entitlements
Defined Benefit Arrangements

	Accrued entitlement at 31.12.96* £000	Additional pension earned during year ended 31.12.96 £000	Transfer value of increase in pension (less Directors' contributions) £000	Directors' contributions paid during year ended 31.12.96 £000
Mr. H. A. Crichton-Miller†	162	17	175	9
Mr. J. Daly††	155	11	114	8
Mr. J. F. Garrett	44	8	72	4
Mr. M. B. Gifford††	291	–	–	–
Mr. T. H. North	184	36	431	10
Mr. A. H. Teare	1	1	6	3
Mr. N. V. Turnbull	85	16	153	14
Mr. D. M. Yates	127	20	183	14

*or where applicable, date of retirement or resignation.

Defined Contribution Arrangements

	Contributions paid during year ended 31.12.96 £000
Mr. A. H. Teare	167

† resigned on 11 July 1996
†† retired on 10 April 1996
††† appointed on 1 October 1996

Report to the Shareholders by the Remuneration Committee

PENSIONS AND PENSIONABLE REMUNERATION

Each executive Director is a member of Rank's Pension Plan which is a defined benefit scheme and provides, subject to Inland Revenue Limits, for a pension at age 60 equal to 1/30th of the individual's pensionable earnings multiplied by his pensionable service, subject to a maximum of twenty years. Pensionable earnings are defined as PAYE earnings.

The amount of pension which can be provided by the Plan is restricted in the cases of Messrs. Garrett and Teare as they joined the Company after 31 May 1989 and are thus subject to the limits imposed by the Finance Act 1989 on that part of an employee's pension which can be funded through an approved scheme. The current limit is a pension on a salary of £82,200. The Company has given a promise to Mr. Garrett that his pension shall be as if this limit did not apply and the Company will be responsible for making payment of any pension in excess of the approved maximum. In the case of Mr. Teare, no such promise has been given but the Company has agreed instead to pay an amount equal to 55% of his basic salary into an unapproved retirement benefits scheme, which is a defined contribution scheme.

In addition to basic salary, pensionable earnings has previously included payments made to Directors under the annual bonus scheme; the Committee considered that as bonus payments are a variable performance related component of Directors' remuneration they should be pensionable while basic salaries are set in relation to only median salaries in comparable companies. As noted on page 39, this policy was, however, reviewed by the Committee during the year and it was decided that annual bonus payments made to executive Directors appointed in the future would not be pensionable. Accordingly, annual bonus payments received by Mr Teare are not pensionable. Annual bonus payments received by Messrs. Garrett, Turnbull and Yates remain pensionable. The cash value of other benefits in kind are not included within pensionable earnings and this element of remuneration is non-pensionable.

DIRECTORS' SERVICE AGREEMENTS

The Chairman and the executive Directors have service agreements with the Company, but the non-executive Directors do not.

The Chairman has a service agreement for an initial term expiring on 28 February 1998 and continuing thereafter with a one year notice period.

The executive Directors have service agreements with notice periods of two years, save that in the case of Mr. Teare the earliest date for expiration of any notice is 1 April 1999; they are required to retire at age 62.

The Committee considers such lengths of notice periods to be appropriate given competitive practice. In reaching this view the Committee has taken into account the views of external advisers. Rank operates in a very competitive environment and in order to attract and retain key people at senior levels, including executive Directors, the Committee considers that less than a two year period of notice would give inadequate security to the individual concerned, to the Board and to shareholders.

Any Director leaving service at the request of the Company (other than for gross misconduct) will be provided with compensation related to age, service and the circumstances relating to his dismissal. The duty to mitigate will also be taken into consideration when determining any severance payment.

Details of the service agreements of the Directors proposed for reappointment at the forthcoming Annual General Meeting are contained in the Directors' Report on page 38.

NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive Directors is determined by the Board. The remuneration consists of annual fees of £25,000 and additional fees of £4,000 for chairing the Audit and Remuneration Committees.

The Chairman and the non-executive Directors do not participate in the annual bonus scheme, any company pension scheme, the Executive Share Option Scheme or the long term incentive plan.

On behalf of the Board

Peter J. Jarvis
Chairman, Remuneration Committee
26 February 1997

Corporate Governance

Code of Best Practice

Throughout the financial year the Group has complied with all of the requirements of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance.

Internal financial control

The Directors acknowledge that they are responsible for the Group's system of internal financial control, which is designed to provide reasonable but not absolute assurance against material misstatement or loss.

Considerable importance is placed on maintaining a strong control environment. In particular, there is a simple organisational structure with clearly drawn lines of accountability and delegation of authority; adherence to specified codes of conduct is required at all times, and the Board actively promotes a culture of quality and integrity. Risks are identified and appraised both formally, through the annual process of preparing business plans and budgets, and informally through close monitoring of operations. Financial results and various key business statistics are reported regularly throughout the year and variances from approved plans and budgets are monitored and followed up vigorously. Detailed control procedures exist throughout the Group's operations and compliance is monitored by management, the Group's internal auditors and, to the extent they consider necessary to support their audit report, the external auditors.

On behalf of the Board, the Audit Committee has reviewed the effectiveness of the system of internal financial controls during the year ended 31 December 1996. This has included consideration of a formal Group-wide risk assessment by the Board, the results of a controls self-certification exercise throughout the Group, and reports from the Group's internal and external auditors.

Going concern

After reviewing the Group's budget for 1997 and its medium term plans, the Directors are confident that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis in preparing the accounts.

Report by the Auditors to the Directors of The Rank Group Plc on Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed your statement concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion your statement above on internal financial control and going concern has provided the disclosures required by the Listing Rules referred to above and is consistent with the information which came to our attention as a result of our audit work on the accounts.

In our opinion, based on enquiry of certain Directors and officers of the Company and examination of relevant documents, your statement appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

Price Waterhouse

Price Waterhouse

Chartered Accountants

London

26 February 1997

Operating and Financial Review

BACKGROUND

Economic conditions in Rank's main leisure and entertainment markets in the UK and US remained favourable in 1996. Leisure spending in the UK is estimated by the Henley Centre to have increased by 6% to £113 billion. Against this background, and with the benefit of recent investment and new openings, Rank produced an improvement in underlying results in the year.

BASIS OF PREPARATION

A reorganisation of Rank's share capital and corporate structure resulted in The Rank Group Plc acquiring 100% of the issued share capital of The Rank Organisation Plc in October 1996. Merger accounting principles have been used, and all comparisons with 1995 refer to the restated unaudited proforma year to 31 December 1995. Further details are provided under Accounting Policies on page 58.

ACCOUNTING POLICIES

There have been two changes to accounting policy in 1996. First, casino turnover now includes gaming win before duty whereas previously it included the value of gaming chips sold. The Directors believe this change makes the segmental analysis more comparable with other businesses in the gaming industry. The change has no effect on operating profit.

Secondly, land and buildings are now stated on the historical cost basis having previously been revalued on a rolling cycle and the valuation incorporated into the accounts. The Directors believe that this change will make the achieved returns on investment clearer to shareholders.

SUMMARY OF RESULTS

Turnover for the year increased by 9% to £2,084 million compared to a restated figure of £1,919 million in 1995. Turnover in continuing operations increased by 11% to £1,882 million, including £62 million from businesses acquired during the year. Turnover increased in each of Rank's four divisions. An analysis of results by division is shown on page 46.

Operating profit before exceptional items, at £290 million, was 13% higher than in 1995. Operating profit in continuing operations, before exceptional items, increased by 15% to £284 million, or by 11% to £275 million before a £9 million contribution from acquisitions.

Profit before tax and exceptional items was £297 million compared with £408 million in 1985. The reduction was more than accounted for by the change in the way that Rank is now accounting for Rank Xerox, as an investment rather than an associate. If Rank Xerox had been dividend accounted for in 1995, profit before tax and exceptionals would have been £279 million and 1996 would have shown 6% growth.

	1996 £m	1995 Proforma £m
Operating profit before exceptional items	**290**	256
Profit before tax and exceptional items	**297**	408
Effect of change in accounting for Rank Xerox	**–**	(129)
	297	279
Exceptional items	**(232)**	236
Profit before tax	**65**	515

There was a material net exceptional charge of £232 million before tax in 1996. This comprised a charge of £148 million for the permanent diminution in values of Group properties; £62 million loss on disposals of businesses and properties; £35 million for restructuring and £12 million in respect of the Group's capital reorganisation, partly offset by £18 million of exceptional income in Precision Industries and a £7 million exceptional interest credit.

The exceptional charges and the change in the way Rank's interest in Rank Xerox is accounted for distort this year's results. However, the Directors believe they will make Rank's future performance easier to interpret and be the base upon which to measure future progress.

Earnings per share before exceptional items in 1996 were 24.1 pence compared with 31.4 pence in 1995 (or 24.3 pence on a similar accounting basis). Earnings per share for Rank, excluding Rank Xerox and exceptional items, increased by 7% to 19.4 pence. After exceptional items, there was a reported loss of £55 million or a loss per share of 6.6 pence in 1996 (1995 earnings per share of 59.7 pence).

EFFECT OF ACQUISITIONS

Acquisitions contributed £62 million to turnover and £9 million to operating profit before exceptional items in 1996. The major acquisition, the Hard Rock business previously owned by Peter Morton, contributed £44 million to turnover and £8 millon to operating profit. The other main acquisition was Tom Cobleigh, which contributed approximately £1m to operating profit. Duplico made a modest contribution but there was no contribution from Hard Rock Cafe Canada, which was only acquired at the year end. The notional interest cost relating to the cost of funding the acquisitions was £11 million.

There were no material acquisitions in 1995 other than the acquisition of the outstanding minority interests in A. Kershaw & Sons Plc.

Operating and Financial Review

Segmental information

	Turnover 1996 £m	Turnover 1995 Proforma £m	Turnover Increase %	Profit before exceptional items 1996 £m	Profit before exceptional items 1995 Proforma £m	Profit before exceptional items Increase %
Film and Entertainment Services						
Video Duplication and Film Processing	**579**	518	12	**76**	64	19
Other	**40**	40	–	**8**	4	100
	619	558	11	**84**	68	24
Hard Rock	**194**	146	33	**46**	41	12
Holidays						
UK Holidays	**401**	373	8	**60**	56	7
US Holidays	**95**	91	4	**6**	11	(45)
	496	464	7	**66**	67	(1)
Leisure						
Gaming	**372**	346	8	**56**	51	10
Entertainment	**184**	154	19	**36**	33	9
	556	500	11	**92**	84	10
Other	**17**	29	(41)	**(4)**	(12)	67
Continuing operations	**1,882**	1,697	11	**284**	248	15
Discontinued operations	**202**	222	(9)	**6**	8	(25)
	2,084	1,919	9	**290**	256	13

BUSINESS REVIEW

All references to operating profit refer to operating profit before exceptional items, unless otherwise stated.

Film and Entertainment Services

Turnover increased by 11% to £619 million. Operating margins improved and operating profit before exceptional items increased by 24% to £84 million. The division again benefited from the range and number of films and videos released by the Hollywood studios.

Profit increased significantly in both video duplication and film processing. Video duplication volumes increased by 16% as Rank's major customers, the Hollywood studios, again increased the number of sell-through titles released in the year. Improved capacity utilisation also helped margins. Duplico, a Spanish-based video duplicator acquired in July, made a modest contribution to profit and has significantly expanded Rank's European capacity and service capability. Film processing volumes increased by 11%. Demand for prints has risen, as the number of cinema screens has increased, particularly in the US, and the Hollywood studios have continued the trend of releasing new films onto a greater number of screens to spread their marketing costs.

Of the two smaller businesses, Pinewood achieved a record profit, with stage occupancy exceeding 90%. Rank Film Distributors continued to increase its investment in new films and profit was higher than in 1995.

Hard Rock

Hard Rock grew significantly, mainly as a result of the acquisition of the cafes previously owned by one of the co-founders, Peter Morton. Turnover increased by £48 million to £194 million and operating profit rose by 12% to £46 million. The acquisition contributed £44 million to turnover and £8 million to profit.

Most of Rank's new cafe openings came in the latter part of the year and had little effect on 1996 performance. Comparable turnover at owned cafes was 4% lower, mainly due to downturns in Paris and Nashville and construction work at Universal City Florida which affected the biggest Hard Rock cafe, in Orlando.

Operating margins narrowed, partly as a result of integration costs and partly because of Hard Rock's investment in new development and sales resources. However, this investment has strengthened Hard Rock's site finding capabilities and will allow Hard Rock to capitalise on the increased marketing opportunities available now that it has international control of the brand.

Holidays

Turnover increased by 7% to £496 million but profit was slightly lower at £66 million. An increase in profit in Rank's UK holiday business of 7% to £60 million was offset by a lower result in the US Holidays business of Resorts USA.

The volume of holidays sold by Rank in the UK, expressed in full week equivalents, increased by 3%. Haven UK performed particularly well and its profit contribution increased significantly, helped by an 11% increase in the value of caravans sold. Haven Europe's bookings declined by 11% and profit was lower, affected by sterling's weakness over the summer, in common with other similar holiday operators. Butlin's experienced continued pressure on tariff income, despite a good improvement in retail spends, and profit was slightly below the 1995 level. Warner UK nearly doubled its profit contribution, to £6 million, as a result of the success of its country house hotels and holiday villages.

Early booking trends for Rank's first Oasis Forest Holiday village, in Cumbria, have been very encouraging. It is, however, too early to predict the outcome for the year.

At Resorts USA, turnover increased by 4% but profit fell by £5 million to £6 million. Sales of campground memberships and timeshare properties increased, but margins were lower as a result of higher marketing costs. The real estate business continued to experience weak demand.

Leisure

The Leisure Division benefited from new openings and higher leisure spending in the UK. Turnover increased by 11% and operating profit by 10% to £92 million, with both Gaming and Entertainment improving.

In Gaming, Rank's new style bingo clubs achieved an encouraging turnaround in performance in the second half of the year as the benefits from the investment in new clubs started to come through. Rank opened sixteen new clubs in the year, bringing the total of new style clubs to forty. After an 8% decline in the first half, Rank's UK bingo admissions increased by 10% in the second half, to end the year slightly higher than in 1995. Comparisons with 1995 were more favourable following the anniversary of the launch of lottery scratchcards in March, but Rank's performance was also better than the market average and bingo profit increased.

Casino admissions were 2% higher than in 1995 and handle per head increased by 4%. The win ratio improved in both London and the provinces, and profit increased. The amusement machine business also improved its result.

In Entertainment, Odeon cinemas had a record year. A wide range of popular films, including *Independence Day* and *Toy Story*, boosted admissions by 19% and profit increased significantly. Nightclub and multi leisure profit was marginally below the excellent 1995 result, with the benefit of a 3% increase in night-club admissions partly offset by temporary disruption as new Hotshots sports bars were successfully added to a number of the existing multi-leisure centres. The multi-leisure centre at Glasgow traded successfully following its opening in August. Tom Cobleigh opened nine new pub-restaurants and contributed approximately £1 million to operating profit, following its acquisition in October.

Other

Other unallocated corporate and property costs were lower than in 1995.

Discontinued

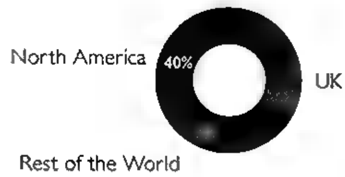
Discontinued activities comprise Precision Industries, Shearings and The Royal Garden Hotel. Other minor disposals were not material enough to be included in this category.

GEOGRAPHICAL CONTRIBUTIONS

UK operations contributed 56% of turnover of continuing operations in 1996 and 54% of operating profit before exceptional items. This compared with 58% and 56% respectively in 1995. North America contributed 39% of turnover and operating profit before exceptional items increased by 21% to £116 million, representing 41%. The Rest of the World contributed 5% of turnover and operating profit.

The chart below shows the analysis of operating profit before exceptional items by geographical area in 1996:

Operating profit £284m*



* Continuing operations
Before exceptional items

INTEREST

Net interest payable for the year was £56 million, before a £7 million exceptional credit, compared with £44 million in 1995. The increase was the result of higher average debt levels during the year, partly offset by the benefit of a lower average net interest rate. The average rate paid on net debt was 7.5% compared with 9.4% in 1995. Interest cover, expressed as the ratio of Rank businesses' operating profit before exceptional items plus dividends and distributions received to net interest was 6.1 times, compared with 7.2 times in 1995. The fixed charge cover was 4.1 times compared with 4.5 times in 1995.

Operating and Financial Review

UNIVERSAL CITY FLORIDA

Universal Studios Florida had a good year and Rank's share of profit increased significantly, from £10 million to £14 million. The "Terminator 2 3-D" attraction, which opened in May, proved extremely popular, as did the launch of a 5-day 'Vacation Value Pass' marketed in conjunction with Sea World and Wet 'n' Wild. Overall, there was a 6% increase in paid admissions. Spend per head also improved and local currency revenue increased by 9% to US$349 million. Profit was also helped by lower amortisation charges.

Universal Studios Florida

	1996 £m	1995 £m
Turnover	223	202
Operating profit	[redacted]	30
Net interest	(10)	(11)
Profit before tax	28	19
Rank's share	14	10
Carrying value of Rank's investment in Universal Studios Florida	129	138

In addition, Rank's investment to date in the Universal City Florida development partnerships totals £64 million. Site clearance and construction work is now progressing for the second theme park and entertainment zone, which will include a major new Hard Rock cafe and Live music amphitheatre.

[redacted]

In 1996, as [redacted] consequence of the Board's decision that it no longer intends to hold its interest in Rank Xerox for the long term and the reduction in the Group's role in its management, Rank is accounting for Rank Xerox as an investment rather than an associate. The dividend receivable for 1996 was £49 million gross of Advance Corporation Tax, or £39 million net of tax. This compared with £58 million gross (£52 million net) in 1995, with the reduction being the result of lower participation profit and of Rank's reduced financial interest in Rank Xerox after 28 February 1995.

Financial information on Rank Xerox is given on pages 86 and 87. Underlying trading reflected weaker economic environments in Rank Xerox's major markets. Revenue declined by 1% compared with the record 1995 (although it increased by 1% before unfavourable currency translation). Reported Participation Profit was £776 million, £70 million or 8% lower than in 1995. Modest underlying profit growth was offset by adverse currency translation and by restructuring charges of £38 million.

Rank Xerox results (Years to 31 December)

	1996 £m	1995 Proforma £m
Turnover	3,673	3,693
Profit before Xerox charges and restructuring	563	601
Restructuring costs	(38)	–
Net interest	(11)	(15)
Income from associates	181	173
Profit participation adjustments	84	89
Minorities	(3)	(2)
Participation profit before tax	776	846

About two-thirds of Participation Profit is derived from the Rank Xerox operations, where the benefit of improved margin was offset by higher costs and the underlying contribution was slightly lower. The other third comes from Fuji Xerox, including royalties, whose contribution increased by 6% (or by 16% before the adverse effect of currency).

PROFIT BEFORE EXCEPTIONAL ITEMS

Profit before tax and exceptional items was £297 million in 1996 compared with £408 million in 1995. The change in accounting treatment for Rank Xerox had a material effect on the reported profit but no effect on Rank's cash flows. The profit and loss account for 1996 includes £49 million of dividend receivable, whereas in 1995 a share of profit of £187 million was included. This change more than accounted for the decline in profit before tax and exceptional items. If Rank Xerox had been dividend accounted for in 1995, profit before tax and exceptionals would have been £279 million and 1996 would have shown 6% growth.

EXCEPTIONAL ITEMS

Exceptional items in 1996 were a net charge of £232 million before tax. Exceptional items charged against operating profit were £148 million in respect of the permanent diminution in the value of properties (explained below), £35 million of restructuring and £12 million associated with Rank's capital reorganisation, partly offset by £18 million of exceptional income that arose in Precision Industries. The table below shows the breakdown of restructuring charges and permanent diminution by division:

Exceptional items

	Restructuring £m	Permanent diminution £m
Film and Entertainment Services	13	[redacted]
Hard Rock	–	–
Holidays	9	66
Leisure	11	76
Other	2	–
	35	**148**

In Film and Entertainment Services, the restructuring charges mainly relate to a reorganisation of the UK film laboratories and to process re-engineering in video duplication. In Holidays and Leisure, the charges mainly relate to the process of regrouping – the consolidation of businesses into single divisional offices and the associated introduction of new computer systems. Within the overall charge for permanent diminution, the biggest write-downs are in bingo and Butlin's, which make up more than half of the total.

Exceptional items also included a non-operating loss of £62 million, which was mainly goodwill write-backs and losses on disposals, and [redacted] £7 million exceptional interest benefit that arose on a hedge position when yen borrowings were repaid.

Exceptional items in 1995 were [redacted] net profit of £236 million before tax, of which the biggest item was the £299 million profit on the partial disposal of the interest in Rank Xerox.

EXCHANGE RATES

The net translation effect of changes in foreign currencies was to increase pre-tax profit by £1 million. The principal exchange rate affecting Rank's results is the US dollar. There was little variance in the average rate for the year, of 1.57 compared with 1.58 in 1995. At the year end, the rate was 1.70 compared with 1.55 at the end of 1995. The yen is no longer an important exchange rate for Rank because of the much lower indirect contribution from Fuji Xerox.

TAXATION

The reported tax rate in 1996 was 148% compared with 19% in 1995. Excluding exceptional items, the tax rate on the Rank subsidiary businesses was 26% versus 23% in 1995. Advance Corporation Tax was charged on the grossed-up value of the franked dividend receivable from Rank Xerox at the rate of 20%. Tax charged on the exceptional items was mainly in respect of prior year adjustments, which will reverse in future years, resulting from the group reorganisation.

EARNINGS

Earnings per share before exceptional items in 1996 were 24.1 pence compared with 31.4 pence in 1995. If Rank Xerox had been dividend accounted in 1995 (when the gross dividend receivable was £58 million) the comparative figure would have been 24.3 pence. The table below shows Rank Xerox's contribution to earnings per share before exceptional items in 1996 and 1995:

Earnings per share (EPS) before exceptional items:	1996 pence	1995 Proforma pence
Rank businesses (including Universal City Florida)	**19.4**	18.1
Rank Xerox contribution as reported*	**4.7**	13.3
Total as reported	**24.1**	31.4
Rank businesses	**19.4**	18.1
Rank Xerox dividend contribution	**4.7**	6.2
EPS on a Rank Xerox dividend accounting basis	**24.1**	24.3

* reported as an investment in 1996 and an associate in 1995.

After exceptional items, there was a loss per share of 6.6 pence in 1996 (1995 earnings per share of 59.7 pence).

Operating and Financial Review

DIVIDENDS

The proposed final dividend of 12.00 pence per Ordinary share, together with the interim dividend of 5.00 pence per Ordinary share already paid, makes a total for the year of 17.00 pence per Ordinary share, an increase of 8% over 1995, which was a fourteen month period. The total dividend for 1996 was covered 1.4 times by earnings before exceptional items. When recommending the final dividend, the Board took into account the underlying progress in the business and the changed accounting treatment of Rank Xerox.

INVESTMENT EXPENDITURE

Rank has continued to invest to expand its leisure and entertainment businesses. In 1996 investment expenditure, comprising capital expenditure, leased assets and acquisitions including debt, totalled £928 million compared with £366 million in 1995.

Capital expenditure

Capital expenditure, including leased assets, increased by 55% to £468 million. Of this, almost half arose in the Leisure division where Rank continued to invest in new style bingo clubs, multiplex cinemas and multi-leisure centres. Other significant areas of expansion were the extension of the video duplication facility in Arkansas; four new Hard Rock cafes; construction of the first Oasis Forest Holiday Village and two new Warner holiday hotel properties. An analysis of capital expenditure by division is shown below:

Capital expenditure by division

	1996 £m	[illegible] Proforma £m
Film and Entertainment Services	73	54
Hard Rock	17	11
Holidays	120	63
Leisure	215	67
Other/discontinued	29	92
Universal City Florida	14	14
	468	301

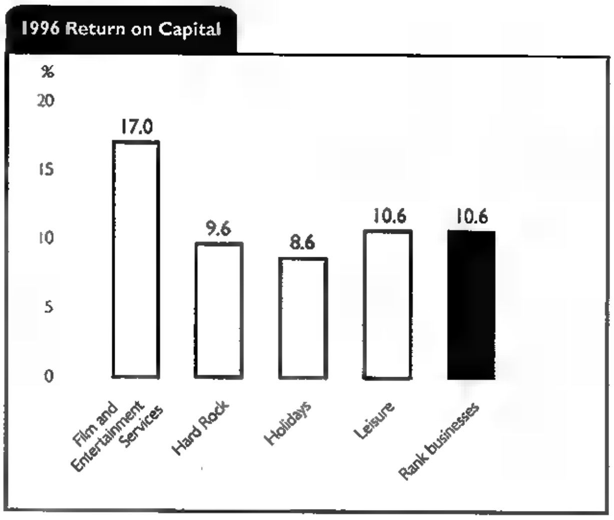
Rank's cash investment in Universal City Florida in 1996 was £14 million, as financing was provided principally by the associate's own borrowings; however, Rank's investment will increase significantly in 1997.

Acquisitions

Acquisitions, including debt, totalled £460 million compared with £65 million in 1995. There were four main acquisitions during the year. In June, Rank acquired the Hard Rock cafes and brand rights previously owned by one of the joint founders, Peter Morton, for US$410 million and in December Rank acquired Hard Rock Cafe Canada for US$61 million (the two together totalling £298 million). In July, Duplico, Europe's largest video duplicator, was acquired for £29 million. In October, Rank acquired the independent pub retailer, Tom Cobleigh, for £123 million including £36 million of debt and loan notes.

RETURN ON CAPITAL

Rank's investment criteria have been reviewed and the more stringent target set of 15% pre-tax return on capital in the second full year of operation. Where appropriate, management performance is now also appraised on the basis of use of capital, in addition to other performance benchmarks. The graph below shows return on capital employed in 1996, defined as the ratio of operating profit before exceptional items to average capital employed (which includes goodwill).



CASH FLOW

The net cash inflow from operating activities was £317 million compared with £332 million for the calendar year 1995. The reduction was the result of an increase in working capital, partly in the Film and Entertainment Services division and partly in US Holidays. Cash received from Universal Studios Florida and Rank Xerox totalled £51 million,

excluding £10 million of ACT credit, compared with £63 million in 1995.

Investment expenditure increased to £928 million, as described above. Disposals of peripheral businesses and other assets realised £261 million (1995 £663 million). Net proceeds in the year from the major disposals were: Precision Industries for £66 million (excluding £9 million of loan notes); Shearings for £75 million; Kingston Plantation for £30 million; and the inland amusement arcade business for £25 million. Other disposals included the completion of the sale of the Royal Garden Hotel. The major disposal in 1995 was the partial disposal of the interest in Rank Xerox, for £620 million.

Overall, there was a cash outflow before use of liquid resources and financing for the year of £498 million compared with an inflow of £450 million in 1995.

[redacted]

At 31 December 1996, net debt was £930 million compared with £426 million at 31 December 1995. The increase was the result of acquisitions, which were all funded by debt, and the accelerated rate of investment expenditure. Just over half of net debt was denominated in US dollars and most of the balance in sterling. Currency movements had the effect of reducing net debt by £45 million.

Net debt as a percentage of shareholders' funds was 52%, compared with 23% at 31 December 1995.

As part of the US$1.5 billion bank facilities arranged for the expansion of Universal City Florida, Rank has guaranteed US$600 million or £353 million of debt. Of that guaranteed debt, US$145 million or £85 million had been drawn down at 31 December 1996. The drawn amount is shown as a contingent liability in the Accounts. Rank's share of drawn, unguaranteed debt is US$129 million or £76 million.

At the end of the year, the Group had committed facilities available amounting to £1.73 billion. Only £40 million of these facilities mature by December 1997 and the balance is adequate to meet Rank's immediate requirements.

The Company's Articles of Association provide that borrowings shall not exceed one and a half times the adjusted share capital and consolidated reserves of Rank. As at 31 December 1996, this limit was £1.95 billion compared with relevant borrowings of £1.06 billion.

[redacted] POLICY

Rank seeks to minimise the impact of movements in exchange rates on its purchases and sales by buying or selling forward a portion of its estimated net currency requirements up to a year ahead, or longer where a longer external commitment exists. Balance sheet exposure in respect of investments in overseas subsidiaries is minimised by hedging the underlying asset position with currency borrowings. At the year end, just under 60% of borrowings were US dollars, with the balance being mainly sterling. During the year, yen debt (which had been held as a hedge against an indirect interest in Fuji Xerox) was repaid as Rank Xerox is now accounted for as an investment.

The exposure of earnings to movements in interest rates is managed by fixing rates on a portion of Rank's borrowings. At the year end just under 40% of borrowings were at rates fixed for more than one year.

The Directors review and agree the broad policies and guidelines for all significant areas of treasury activity, including key ratios, funding and risk management. Implementation of these policies is carried out by the Group treasury department, under close management direction. The treasury function is not operated as [redacted] profit centre.

Rank uses off-balance sheet financial instruments, including foreign exchange forward contracts and interest rate swaps in its management of exchange rate and interest rate exposures. Off-balance sheet financial instruments are only used to hedge underlying commercial exposures. Therefore while these instruments are subject to the risk of loss from changes in exchange rates and interest rates, such losses would be offset by gains in the related exposures. Rank does not speculate in derivative financial instruments. Realised and unrealised gains and losses on forward contracts that hedge firm third party commitments are recognised in income in the same period as the underlying transaction. Net interest paid or received on interest rate swap contracts is included in net interest expense.

RISK MANAGEMENT

Rank's financial exposure to risk is reduced by its geographical spread, the wide range of products and services offered, its treasury policies and insurance. As a leisure and entertainment company, Rank is primarily affected by levels of consumer spending and trends in leisure activities. Rank dedicates significant resources to product innovation, market research and marketing activity to stimulate demand continually and to explore new opportunities. Diligent cash management is also an important feature of its business.

Rank carries catastrophe insurance, but self-insures at lower levels of exposure. Overall, considerable emphasis is placed on the need for strict internal financial controls in all Rank's operations and these are regularly reviewed by its internal auditors.

SHAREHOLDERS' FUNDS

Shareholders' funds were £1,796 million at the end of 1996 compared with [redacted] restated £1,816 million at the end of 1995. The reduction in 1996 was the result of the retained loss for the year of £195 million and goodwill written off in respect of acquisitions of £368 million, partly

Operating and Financial Review

Year ended	31 December 1996 £m	31 December [redacted] Proforma £m	31 December 1994 Proforma £m	31 October 1993 [redacted] £m	31 October 1992 Proforma £m
Turnover					
Current operations	**1,865**	1,668	1,557	1,385	1,241
Former operations	**219**	251	278	389	452
	2,084	1,919	1,835	1,774	1,693
Operating profit before exceptional items					
Current operations	**282**	249	243	207	166
Former operations	[redacted]	7	(4)	(6)	12
	[redacted]	256	239	201	178
Associates (excluding Rank Xerox)	**14**	9	10	11	7
Interest excluding exceptional items	**(56)**	(44)	(74)	(88)	(87)
Profit before Rank Xerox and tax and exceptionals	[redacted]	221	175	124	98
Rank Xerox before exceptional items	**49**	187	210	151	137
Profit before tax and exceptional items	**297**	408	385	275	235
Exceptional items	**(232)**	236	(59)	65	1
Profit before [redacted]	[redacted]	644	326	340	236
Earnings per Ordinary share before exceptional items					
– Rank businesses	**19.4p**	18.1p	13.0p	8.0p	5.2p
– Rank Xerox	**4.7p**	13.3p	14.2p	10.6p	10.2p
–Total	**24.1p**	31.4p	27.2p	18.6p	15.4p
Dividend per Ordinary share (net)	**17.00p**	15.75p	13.25p	12.16p	12.16p

offset by the upward revaluation of Rank's investment in the Rank Xerox companies by £498 million to £930 million (the value implied by the February 1995 transaction).

Rank announced with its interim results that it had decided to revert to the historical cost basis in determining the carrying values of property assets. Accordingly, the property revaluation reserve, which stood at £186 million at 31 December 1995 was reversed. In addition, and following an independent review, Rank decided to write down the net book amounts of certain properties by [redacted] further £148 million in respect of permanent diminution (charged against operating profit and included in exceptional items).

Net assets per Ordinary share at 31 December 1996 were 189 pence, compared with 193 pence at the end of 1995.

FIVE YEAR [redacted]

The table above shows the key trends in Rank's results, excluding Rank Xerox, over the period 1 November 1992 to 31 December 1996. Turnover in current operations increased at a compound annual growth rate of 10% and operating profit before exceptional items increased by 12%. Profit before tax in the Rank businesses, excluding exceptional items and Rank Xerox, was £248 million in 1996 compared with £98 million in 1992, representing a compound annual growth rate of 25%.

Earnings per share before exceptional items in the Rank businesses in 1996 were 19.4 pence compared with 5.2 pence in 1992, [redacted] compound annual increase of over 35%. Total earnings per share before exceptional items in 1996 were 24.1 pence compared with 15.4 pence in 1992 which, despite the effect of the change in accounting for Rank Xerox in 1996, represents a compound annual increase of 11%.

The net dividend per Ordinary share of 17.00 pence in 1996 compared with 12.16 pence in 1992, a compound average annual growth rate of 8%.

SHAREHOLDER VALUE

During 1996, Rank Ordinary shares fluctuated between a low of 403½ pence and a high of 545 pence, finishing the year at 435½ pence. The Convertible Preference shares fluctuated between 131½ pence and 171½ pence and ended the year at 135½ pence. At 31 December 1996 Rank's total capitalisation was just under £4 billion.

Over the year, Ordinary shareholder value, defined as share price appreciation plus gross dividends reinvested, declined by 3%. However, over the period 1 November 1991 to 31 December 1996, shareholder value increased at [redacted] compound rate of 16%. This compared with a compound rate of 15% for the FT-SE-All Share Index.

Directors' Responsibilities in relation to Accounts

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts the Directors are required to select appropriate accounting policies and apply them consistently, to make reasonable and prudent judgments and estimates, and to state that all accounting standards which they consider to be applicable have been followed, save as disclosed in the notes to the accounts. The Directors are also required to prepare the accounts on the going concern basis unless it is inappropriate to do so.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors also have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors

REPORT [redacted] THE AUDITORS TO THE MEMBERS OF THE [redacted] GROUP PLC

We have audited the accounts set out on pages 54 to 84, which have been prepared under the historical cost convention, as modified by the revaluation of certain investments, and the accounting policies set out on pages 58 and 59, and the information set out in the tables within pages 39 to 43 of the Report of the Remuneration Committee.

Respective responsibilities of Directors and Auditors

As described above, the Company's Directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1996 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse

Chartered Accountants
Registered Auditors
London
26 February 1997

Group Profit and Loss Account

for the year ended 31 December 1996

		1996			1995 Proforma		
	Note	Before Exceptional Items £m	Exceptional Items	Total £m	Before Exceptional £m	Exceptional Items £m	Total £m
Turnover							
Continuing operations		1,820	–	1,820	1,697	–	1,697
Acquisitions		62	–	62	–	–	–
	1, 2	1,882	–	1,882	1,697	–	1,697
Discontinued operations	1, 2	202	–	202	222	–	222
	1, 2	2,084	–	2,084	1,919	–	1,919
Operating profit							
Continuing operations		275	(195)	80	248	–	248
Acquisitions		9	–	9	–	–	–
	1, 2	284	(195)	89	248	–	248
Discontinued operations	1, 2	6	18	24	8	–	8
	1, 2	290	(177)	113	256	–	256
Non-operating items							
(Loss) on disposal of continuing operations' properties	3	–	(11)	(11)	–	(44)	(44)
(Loss) on disposal of continuing operations	3	–	(33)	(33)	–	(21)	(21)
Profit on disposal of interests in associates	3	–	–	–	–	300	300
(Loss) profit on disposal of discontinued operations	3	–	(18)	(18)	–	1	1
Income from interests in associated undertakings							
Universal City Florida	13	14	–	14	10	–	10
Rank Xerox	13	–	–	–	187	–	187
Others	13	–	–	–	(1)	–	(1)
Income from other fixed asset investments							
Rank Xerox dividends receivable	14	49	–	49	–	–	–
Profit before interest		353	(239)	114	452	236	688
Net interest payable and other similar charges	4	(56)	7	(49)	(44)	–	(44)
Profit [redacted] ordinary activities before tax		297	(232)	65	408	236	644
Tax on profit on ordinary activities	5	(72)	(24)	(96)	(123)	(1)	(124)
Profit (loss) on ordinary activities after tax		225	(256)	(31)	285	235	520
Minority interests (including non-equity interests)	23	(3)	–	(3)	(3)	–	(3)
Profit (loss) for the financial year		222	(256)	(34)	282	235	517
Dividends and other appropriations							
Preference	7	(21)	–	(21)			
Ordinary	7	(142)	–	(142)			
Transfer (from) [redacted]	22	59	(256)	(197)			
(Loss) earnings per Ordinary share	8	24.1p	(30.7)p	(6.6)p	31.4p	28.3p	59.7p

Balance Sheets

[redacted] 31 December 1996

	Note	Group 1996 [redacted]	Group 1995 Proforma £m	Company 1996 £m
Fixed assets				
Tangible assets	9	**1,574**	1,518	**–**
Investments	11	**1,124**	622	**605**
		2,698	2,140	**605**
Current assets				
Stocks	15	**124**	151	**–**
Debtors (amounts falling due within one year)	16	**312**	338	**–**
Debtors (amounts falling due after more than one year)	16	**235**	203	**27**
Investments	17	**19**	17	**–**
Cash and deposits	17	**58**	296	**–**
		748	1,005	**27**
Creditors (amounts falling due within [redacted] year)				
Loan capital and borrowings	18	**(118)**	(63)	**–**
Other	19	**(536)**	(528)	**(136)**
		(654)	(591)	**(136)**
[redacted] current assets (liabilities)		[redacted]	414	**(109)**
[redacted] assets less current liabilities		**2,792**	2,554	**496**
Creditors (amounts falling due after [redacted] than one year)				
Loan capital and borrowings	18	**(889)**	(676)	**–**
Other	19	**(18)**	(12)	**–**
		(907)	(688)	**–**
Provisions for liabilities and charges	20	**(63)**	(25)	**–**
		1,822	1,841	**496**
Capital and [redacted]				
Called up share capital	22	**129**	129	**129**
Share premium account	22	**1**	–	**1**
Revaluation reserves	22	**498**	–	**–**
Other reserves	22	**1,168**	1,687	**366**
Shareholders' funds		**1,796**	1,816	**496**
Equity interests		**1,582**	1,604	**282**
Non-equity interests		**214**	212	**214**
Minority interests (including non-equity interests)	23	**26**	25	**–**
		1,822	1,841	**496**

These accounts were approved by the Board [redacted] 26 February 1997 and signed on its behalf by:

Sir Denys Henderson *Chairman*

N. V. Turnbull *Finance Director*

Group Cash Flow Statement

for the year ended 31 December 1996

	Note	1996 £m	1995 Proforma [redacted]
Net cash inflow from operating activities	24	**317**	332
Returns [redacted] investment and servicing of finance			
Interest received		**16**	41
Interest paid		**(75)**	(106)
Distributions from associated undertakings		**10**	63
Distributions from investments		**41**	–
Dividends paid to preference shareholders		**(19)**	(19)
Dividends paid to minority shareholders in subsidiary undertakings		**(2)**	(9)
		(29)	(30)
Taxation paid (net)		**(46)**	(47)
Capital expenditure			
Purchase of tangible fixed assets		**(444)**	(275)
Investment in associated undertakings		**(14)**	(14)
Purchase of own shares		**(1)**	–
Sale of fixed assets and assets held for disposal		**10**	45
		(449)	(244)
Acquisitions and disposals			
Purchase of subsidiaries and minorities	25	**(409)**	(65)
Sale of businesses and investments	26	**251**	618
		(158)	553
Ordinary dividends paid		**(133)**	(114)
Cash (outflow) inflow before [redacted] of liquid [redacted] and financing		**(498)**	450
Management of liquid resources	27	**(2)**	(14)
Financing			
Issue of Ordinary share capital		**10**	8
Debt due within one year:			
drawdown (repayment) of short-term loans and borrowings		**32**	(165)
Debt due after more than one year:			
new sterling syndicated facility		**189**	–
new US dollar syndicated facility		**188**	–
other new foreign currency facilities		**41**	–
repayment of yen facilities		**(132)**	(76)
repayment of acquired borrowings		**(37)**	–
Capital element of finance lease rental payments		**(22)**	(6)
Increase (decrease) in debt and lease financing	27, 28	**259**	(247)
(Decrease) increase in cash	27, 28	**(231)**	197

Group Recognised Gains and Losses

for the year ended 31 December 1996

	1996 £m	[redacted] Proforma £m
(Loss) profit for the financial year	(34)	517
Surplus on revaluation of investment in Rank Xerox	498	–
Currency translation differences on foreign currency net investments	(28)	27
	470	27
Total recognised gains and losses for the year	436	544
Prior year adjustment (as explained below*)	(186)	–
Total gains and losses recognised since last annual report	250	544

Group Historical Cost Profits and Losses

for the year ended 31 December 1996

There is no difference between the result as disclosed in the profit and loss account and that on an unmodified historical cost basis.

Movements in Shareholders' Funds

for the year ended 31 December 1996

	1996 £m	1995 Proforma [redacted]
(Loss) profit for the financial year	(34)	517
Dividends payable excluding provision for redemption premium	(161)	(150)
Retained (loss) profit for the year	(195)	367
Other recognised gains and losses (net)	470	27
Issue of Ordinary share capital	10	8
Goodwill realised on closures or disposals	63	45
Elimination of goodwill arising in the year	(368)	(49)
Net movement in shareholders' [redacted]	(20)	398
Shareholders' funds [redacted] 1 January		
As previously stated	2,002	1,562
Prior year adjustment (as explained below*)	(186)	(144)
As restated	1,816	1,418
Shareholders' funds [redacted] 31 December	1,796	1,816

* The Proforma figures for the Group are those previously reported for The Rank Organisation Plc and subsidiaries adjusted to the Group's revised accounting policy for land and buildings which are now based on historical cost as opposed to professional valuation (Accounting Policy 1 and note 22).

Accounting Policies

I [redacted] OF PREPARATION

The Company was incorporated on 22 December 1995 as Megastorm Plc and changed its name to The Rank Group Plc on 23 July 1996. Up to 7 October 1996, the Company's assets and paid in capital amounted to only £2, and it did not trade or declare or pay any dividends or make any other distributions. Effective from 7 October 1996, the Company became a holding company owning 100% of the issued share capital of The Rank Organisation Plc following implementation of a scheme of arrangement under S.425 Companies Act 1985. The acquisition has been accounted for as [redacted] merger combining the accounts of the Company for the period from 22 December 1995 to 31 December 1996 with those of The Rank Organisation Plc and its subsidiaries for the year ended 31 December 1996.

The accounts are prepared under the historical cost convention, modified by the inclusion of an investment at Directors' valuation, and comply with applicable accounting standards [redacted] basis consistent with the previous year, except for two changes explained below. The Group's profit and loss account and balance sheet include the accounts of the Company and its subsidiary undertakings, and the Group's share of profits or losses and reserves of its associated undertakings. The profits or losses of subsidiary undertakings acquired or sold during the period are included as from or up to the dates on which control passes.

Changes in accounting policy

The proforma comparatives for the year ended 31 December 1995 are based on previously published results and on unaudited internal management accounts of The Rank Organisation Plc and its subsidiaries adjusted for two changes in accounting policy:

(a) Casinos' turnover includes gaming win before duty whereas previously it included the value of gaming chips sold. The effect has been to reduce turnover of the Gaming segment of the Leisure Division by £393 million for the year ended 31 December 1995. The Directors believe that this change makes the segmental analysis more comparable with other businesses in the gaming industry. The change has no effect on operating profit.

(b) Land and buildings are stated [redacted] the historical cost basis. Previously they had been revalued on a rolling cycle and the valuation incorporated in the accounts. The effect of this change, which has been shown [redacted] prior year adjustment, has been to reduce the profit for the year ended 31 December 1995 by £4 million and to reduce Shareholders' funds at that date by £186 million. The Directors believe that this change facilitates analysis of returns in the Group's business segments.

The Group has adopted Financial Reporting Standard 1 (Revised) and the 1995 proforma cash flow figures have been restated accordingly.

II FOREIGN CURRENCY

Revenues, costs and cash flows of overseas undertakings are included in the Group profit and loss account at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date except where [redacted] forward exchange contract has been arranged when the contracted rate is used. Exchange differences on the retranslation of opening net assets and results for the period of foreign subsidiary undertakings are dealt with through reserves net of differences on related foreign currency borrowings. Other gains and losses arising from foreign currency transactions, including trading, are included in the consolidated profit and loss account.

The principal exchange rates affecting the Group were:

	1996		1995	
	Year-end	Average	Year-end	Average
United States dollar	**1.70**	**1.57**	1.55	1.58
Canadian dollar	**2.33**	**2.13**	2.12	2.17
German mark	**2.64**	**2.34**	2.22	2.26
Spanish peseta	**222**	**202**	188	197

III INCOME RECOGNITION

Turnover consists of sales of goods and services and is generally recognised as goods are shipped or services are rendered. Turnover for casinos includes the gaming win before deduction of gaming duty. The sales value of work carried out on property developments in progress is recognised in relation to the progress towards completion and the estimated profit on the total development contract.

Accounting Policies

IV DEFERRED EXPENDITURE

Deferred expenditure comprises (a) those costs, including interest, incurred prior to the commencement of trading which are regarded as a prepayment against future profits to be earned, (b) other intangible assets including rights acquired and (c) advance payments on supply contracts. The expenditure is included in prepayments and is written off over periods of three to eight years, the period over which the related benefits are expected to arise.

V GOODWILL

Goodwill arising on acquisition is eliminated against reserves in the year that it arises. The profit or loss on the disposal or termination of a business includes any goodwill previously eliminated against reserves.

VI STOCKS

Stocks include work in progress and are valued at the lower of cost (including an appropriate proportion of overhead) and net realisable value.

VII DEPRECIATION

No depreciation is provided on freehold land or on certain properties, which [redacted] freehold or held on lease for a term exceeding 20 years unexpired, where the Directors are of the opinion that the properties concerned are currently sufficiently well maintained to ensure that the residual values of such properties are such that the depreciation would be insignificant.

Other freehold properties are depreciated on a straight line basis over 100 years or useful life, if less. Other leasehold properties are depreciated over the lesser of 100 years, their useful life or the term of the lease. Expenditure on major refurbishment of properties is amortised over periods of between 3 and 15 years. Other fixed assets are depreciated mainly at rates between 5% and 25% per annum on a straight line basis.

VIII LEASED ASSETS

Assets acquired under finance leases are included in tangible fixed assets. Depreciation is provided at rates designed to write off the cost in equal annual amounts over the shorter of the estimated useful lives of the assets (which are the same as those for assets purchased outright) and the period of the leases. The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding. Operating lease payments are charged to the profit and loss account as incurred. No provision is made for future costs on vacant leasehold properties. Such costs are expensed as incurred.

IX PENSIONS

The pension costs relating to the UK defined benefit scheme are assessed in accordance with the advice of a qualified actuary using the projected unit method. Actuarial surpluses and deficiencies are amortised on a straight line basis over the expected average remaining service lives of the employees. The pension costs relating to the UK defined contribution scheme represent the contributions payable by the Group. Overseas schemes [redacted] accounted for in accordance with local conditions and practice such that the costs are charged against profits on a systematic basis over the service lives of the employees.

X TAXATION

Current taxation is applied to taxable profits at the rates ruling in the relevant country. Deferred taxation, computed under the liability method, is provided in respect of timing differences to the extent that it is probable that a liability will arise in the foreseeable future. Advance Corporation Tax on dividends paid is set off against United Kingdom current tax liabilities and deferred tax provisions to the extent that it is considered recoverable. Irrecoverable Advance Corporation Tax is written off as part of the tax charge for the period.

Notes to the Accounts

1 SEGMENTAL INFORMATION

Analysis by division (a)	Turnover 1996 [illegible]	Turnover 1995 [illegible] [illegible]	[illegible] before exceptional items 1996 £m	[illegible] before exceptional items 1995 Proforma £m	Profit after exceptional items 1996 [illegible]	Profit after exceptional items 1995 [illegible] £m	Capital employed 1996 £m	Capital employed [illegible] Proforma [illegible]
Film and Entertainment Services								
Video Duplication and Film Processing	**579**	518	**76**	64	**57**	64	**481**	435
Other	**40**	40	**8**	4	**8**	4	**40**	35
	619	558	**84**	68	**65**	68	**521**	470
Hard Rock (b)	**194**	146	[redacted]	41	**46**	41	**622**	334
Holidays								
UK Holidays	**401**	373	**60**	56	**(15)**	56	**547**	536
US Holidays	[redacted]	91	**6**	11	**6**	11	**227**	229
	496	464	[redacted]	67	**(9)**	67	**774**	765
Leisure								
Gaming	**372**	346	[redacted]	51	**(10)**	51	**617**	600
Entertainment	**184**	154	[redacted]	33	**15**	33	**339**	176
	556	500	**92**	84	**5**	84	**956**	776
Other	**17**	29	**(4)**	(12)	**(18)**	(12)	**(7)**	40
Continuing operations	**1,882**	1,697	**284**	248	**89**	248	**2,866**	2,385
Discontinued operations (c)	**202**	222	**6**	8	**24**	8	**6**	194
	2,084	1,919	**290**	256	**113**	256	**2,872**	2,579
Share of investments:								
Universal Studios Florida			**14**	10	**14**	10	**144**	154
Universal City Florida developments			**–**	–	**–**	–	**64**	51
Rank Xerox			**49**	187	**49**	187	**930**	432
Other			**–**	(1)	**–**	(1)	**1**	1
			63	196	**63**	196	**1,139**	638
Total capital employed (d)							**4,011**	3,217
Non-operating items (net)					**(62)**	236		
Net interest payable and other similar charges			**(56)**	(44)	**(49)**	(44)		
Profit on ordinary activities before tax			**297**	408	**65**	644		

(a) The divisional analysis has been prepared on the new divisional basis with figures for 1995 restated accordingly. Inter-segmental turnover is not material.

(b) Hard Rock includes £44m turnover and £8m operating profit from acquisitions in 1996.

(c) Discontinued operations comprise the Rank Precision Industries companies, Shearings and The Royal Garden Hotel.

(d) Capital employed comprises net assets plus purchased goodwill.

1 SEGMENTAL INFORMATION
continued

Analysis by division

	Depreciation		Investment expenditure		Net cash flow		Net assets	
	1996 [illegible]	1995 Proforma £m	1996 £m	1995 Prof[illegible] £m	1996 £m	[illegible] Proforma £m	1996 £m	1995 Proforma £m
Film and Entertainment Services								
Video Duplication and Film Processing	26	20	101	53	(22)	8	290	234
Other	1	1	2	1	3	13	40	35
	27	21	103	54	(19)	21	330	269
Hard Rock	6	3	315	11	(268)	32	81	65
Holidays								
UK Holidays	27	27	113	57	(9)	36	513	502
US Holidays	4	3	7	6	(11)	(14)	201	200
	31	30	120	63	(20)	22	714	702
Leisure								
Gaming	40	37	149	88	(22)	5	458	425
Entertainment	12	10	200	44	(144)	10	277	170
	52	47	349	132	(166)	15	735	595
Other	2	2	2	61	(49)	559	(7)	34
Continuing operations	118	103	889	321	(522)	649	1,853	1,665
Discontinued operations	8	8	25	31	185	(6)	6	160
	126	111	914	352	(337)	643	1,859	1,825
Investments								
Universal Studios Florida			–	–	10	10	129	138
Universal City Florida developments			14	14	(14)	(14)	[redacted]	51
Rank Xerox			–	–	41	52	930	432
Other			–	–	–	1	1	1
			14	14	37	49	1,124	622
			928	366	(300)	692	2,983	2,447
Interest paid (net)					(59)	(65)		
Tax and dividends					(200)	(189)	(169)	(120)
Other non-operating liabilities (net)							(62)	(60)
Acquired debt and other non-cash items			(61)	(12)	61	12		
Net debt							(930)	(426)
			867	354	(498)	450	1,822	1,841

Geographical analysis

	Turnover [illegible]		Operating profit by orig[illegible]				Net assets	
			[illegible] exceptional items		After exceptio[illegible]			
	1996 [illegible]	[illegible] £m	1996 £m	1995 Proforma £m	1996 [illegible]	1995 Proforma [illegible]	1996 £m	1995 Proforma £m
United Kingdom	1,065	986	155	138	(23)	138	1,305	1,148
North America	732	639	116	96	102	96	479	463
Rest of the World	[redacted]	72	13	14	10	14	[redacted]	54
Continuing operations	1,882	1,697	[redacted]	248	[redacted]	248	1,853	1,665

Turnover by destination is not materially different from turnover by origin.

Notes to the Accounts

2 TURNOVER AND OPERATING PROFIT

	1996			1995 Proforma		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Turnover	**1,882**	**202**	**2,084**	1,697	222	1,919
Cost of sales	**(1,328)**	**(152)**	**(1,480)**	(1,199)	(164)	(1,363)
Gross profit	**554**	**50**	**604**	498	58	556
Distribution costs	**(107)**	**(25)**	**(132)**	(92)	(27)	(119)
Administrative expenses	**(217)**	**(21)**	**(238)**	(162)	(24)	(186)
Other operating income (costs)	**(141)**	**20**	**(121)**	4	1	5
Operating profit	**89**	**24**	**113**	248	8	256
Exceptional items included above are:						
In cost of sales	**(11)**	**–**	**(11)**	–	–	–
In administrative expenses	**(36)**	**–**	**(36)**	–	–	–
In other operating income (costs)	**(148)**	**18**	**(130)**	–	–	–
	(195)	**18**	**(177)**	–	–	–

The total figures for continuing operations in 1996 include the following amounts relating to acquisitions: cost of sales £44m, distribution costs £2m, and administrative expenses £7m.

	1996 £m	1995 Proforma £m
Operating profit is stated after charging (crediting) the following items:		
In normal trading		
Depreciation of tangible fixed assets	**126**	111
Operating lease payments – land and buildings	**39**	34
– plant and machinery	**2**	2
In exceptional items		
Permanent diminution of operating assets	**148**	–
Restructuring costs	**35**	–
Costs of capital reorganisation	**12**	–
Income from revision of contractual arrangements	**(18)**	–

The total audit fee for the year was £1.1m (1995 £1.6m). The fee in respect of the Company was £50,000. The total audit fee for 1996 includes amounts paid to KPMG as they have continued to audit certain subsidiaries.

Fees for non-audit work paid by the Company and its UK subsidiaries to the Group auditor were £0.8m (1995 £0.8m) and for non-audit work for overseas subsidiaries was £0.1m (1995 £0.1m). The figures for 1996 relate to Price Waterhouse and in 1995 to KPMG.

3 NON-OPERATING ITEMS

	1996 £m	[redacted] Proforma £m
Profit on disposal of continuing operations' properties	11	7
Loss (including provision for loss) on disposal of continuing operations' properties	(22)	(51)
	(11)	(44)
Loss on disposal of continuing operations (after deducting goodwill of £29m (1995 £NIL))	(33)	(21)
Profit on disposal of interests in associates in 1995 (after deducting goodwill of £45m and exchange losses on related foreign currency borrowings of £6m)	–	300
Profit (including release of provisions) on disposal of discontinued operations	23	1
Loss (including provision for loss) on disposal of discontinued operations (after deducting goodwill of £34m)	(41)	–
	(18)	1
Non-operating items before tax	(62)	236

The tax charge attributable to non-operating items is £4m (1995 £1m).

4 NET INTEREST PAYABLE AND OTHER SIMILAR [redacted]

	1996 £m	1995 Proforma £m
Interest payable on bank loans and overdrafts	19	19
Interest payable on other loans	52	56
Net gain on cancellation of interest rate swaps in 1995 (gains £15m, losses £14m)	–	(1)
Finance charges on finance leases	2	2
Interest capitalised in period	(10)	(5)
Amortisation of interest capitalised (note 13)	1	1
Interest payable and other similar charges	64	72
Interest receivable from deposits and current asset investments	(8)	(28)
Net interest payable and other similar charges before exceptional items	56	44
Exceptional gain on repayment of foreign currency debt	(7)	–
Net interest payable and other similar charges	49	44

The exceptional gain on repayment of foreign currency debt arose from the repayment of yen-denominated debt held to hedge the Group's underlying investment in Fuji Xerox, an associate of the Rank Xerox companies. As a result of ceasing to equity account for the Group's investment in the Rank Xerox companies, the hedge was no longer required and the borrowings were consequently repaid.

Notes to the Accounts

TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1996			1995 Proforma		
	Before exceptional items	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
United Kingdom corporation tax						
Current	55	[illegible]	113	36	–	36
Deferred	(4)	(10)	(14)	12	–	12
Advance Corporation Tax written off (recovered)	1	(25)	(24)	(6)	1	(5)
Attributable to franked investment income	10	–	10	–	–	–
	62	23	85	42	1	43
Overseas tax						
Current	10	1	11	6	–	6
Deferred	–	–	–	–	–	–
	10	1	11	6	–	6
Share of associated undertakings' taxation (note 13)	–	–	–	75	–	75
	72	24	96	123	1	124

Company and its subsidiaries

United Kingdom corporation tax on profits for the year has been provided at 33.0% (1995 33.0%). The United Kingdom tax charge is stated after crediting double tax relief of £1m (1995 £1m) in respect of income of subsidiary undertakings.

Tax charged on exceptional items is mainly in respect of the planned disclaimer of capital allowances claimed in earlier years, partially offset by the recovery of Advance Corporation Tax.

PROFIT ATTRIBUTABLE TO THE PARENT COMPANY

The profit for the financial year in the accounts of The Rank Group Plc was £303m. As allowed by S. 230 Companies Act 1985, no profit and loss account is presented in respect of The Rank Group Plc.

7 DIVIDENDS

	1996 £m	Proforma £m
Convertible Redeemable Preference shares		
Dividends payable for the period	19	19
Provision for redemption premium	2	2
	21	21
Ordinary shares		
Interim paid by The Rank Organisation Plc of 5.00p per share	42	
Final proposed by The Rank Group Plc of 12.00p per share	100	
	142	

EARNINGS PER [redacted]

	1996 £m	1995 Proforma £m
Net profit for the year before exceptional items	222	282
Less: Preference dividends	(21)	(21)
Earnings before exceptional items	201	261
Exceptional items after tax	(256)	235
(Loss) earnings after exceptional items	(55)	496
Weighted average number of Ordinary Shares	834.9m	830.9m
Earnings per share before exceptional items	24.1p	31.4p
(Loss) earnings per share	(6.6)p	59.7p

Earnings per share before exceptional items has been calculated to show the impact of exceptional items as these can have [redacted] distorting effect on earnings and therefore warrant separate consideration.

TANGIBLE FIXED ASSETS

Group	Land [redacted] £m	Fixtures, fittings, plant and machinery [redacted]	Payments on account and assets in course of construction £m	Total £m
Cost or valuation at 31 December 1995 as previously stated	1,219	942	52	2,213
Prior year adjustment (note 22)	(105)	–	–	(105)
Cost at 31 December 1995	1,114	942	52	2,108
Currency translation adjustment	(16)	(27)	–	(43)
New businesses acquired	73	23	5	101
Additions	116	186	168	470
Disposals	(147)	(188)	(1)	(336)
Transfers including to current assets	48	21	(72)	(3)
Cost at 31 December 1996	1,188	957	152	2,297
Depreciation at 31 December 1995 as previously stated	51	490	–	541
Prior year adjustment (note 22)	49	–	–	49
Depreciation at 31 December 1995 (restated)	100	490	–	590
Currency translation adjustment	(2)	(13)	–	(15)
Disposals	(14)	(112)	–	(126)
Depreciation for the year	16	110	–	126
Provision for permanent diminution	118	30	–	148
Transfers including to current assets	1	(1)	–	–
Depreciation at 31 December 1996	219	[redacted]	–	723
Net book amount at 31 December 1996	[redacted]	453	152	1,574
Net book amount at 31 December 1995 (restated)	1,014	452	52	1,518

(a) The amounts at 31 December 1995 have been extracted from the audited accounts of The Rank Organisation Plc and restated to the historical cost basis by eliminating the effect of previous property valuations.

(b) Land and buildings with a net book amount of £760m (1995 £798m) are not depreciated. The net book amount of tangible assets for the Group includes £13m (1995 £9m) interest capitalised.

(c) The net book amount of plant and machinery includes £26m (1995 £32m) in respect of assets held under finance leases. The depreciation charge in respect of these assets was £4m (1995 £3m).

Notes to the Accounts

9 TANGIBLE FIXED ASSETS continued

	1996 £m	[illegible] Proforma £m
The net book amount of land and buildings comprised		
Freeholds	**671**	697
Long leases (over 50 years unexpired)	**188**	200
Short leases	**110**	117
	969	1,014

10 COMMITMENTS

Future capital expenditure

At 31 December 1996 commitments for capital expenditure amounted to £162m (1995 £78m) for the Group and £NIL for the Company.

Film production commitments

At 31 December 1996 commitments by a subsidiary undertaking for film productions amounted to £13m (1995 £84m).

Group operating lease commitments

The commitment at 31 December 1996 to make payments under operating leases in the following twelve months was:

	[illegible] and buildings		Plant and [illegible]	
	1996 £m	1995 Proforma £m	1996 £m	1995 Proforma £m
Leases expiring in one year	**1**	1	**–**	–
Leases expiring in two to five years	**7**	5	**8**	2
Leases expiring in more than five years	**27**	29	**–**	–
	35	35	**8**	2

11 INVESTMENTS

	Group		Company
	[illegible] £m	[illegible] Proforma £m	1996 £m
Subsidiary undertakings (note 12)	**–**	–	**604**
Associated undertakings (note 13)	**193**	622	**–**
Other investments (note 14)	**931**	–	**1**
	1,124	622	**605**

12 INVESTMENTS IN [illegible] UNDERTAKING

	Company		
	Shares at cost £m	Loans [illegible] advances £m	Net book amount £m
Balances at 31 December 1995	–	–	–
Additions	[illegible]	306	604
Balances at 31 December 1996	**298**	[illegible]	[illegible]

Details of principal subsidiary undertakings are given on pages 83 and 84.

13 INTERESTS IN ASSOCIATED UNDERTAKINGS

Associated companies (unlisted)	Participating interests at cost £m	[redacted] share of post acq[redacted] reserves £m	Total £m
Balances at 31 December 1995 as previously stated	208	447	655
Prior year adjustment (note 22)	–	(33)	(33)
Net book amount at 31 December 1995 (restated)	208	414	622
Transferred to other investments (note 14)	(15)	(417)	(432)
	193	(3)	190
Currency translation adjustment	(18)	–	(18)
Additions	19	–	19
Increase in capital distributions receivable	4	–	4
Disposals	(2)	1	(1)
Amortisation of interest capitalised	(1)	–	(1)
Profits less losses for the year less dividends receivable (see below)	–	–	–
Net book amount at 31 December 1996 (b)	**195**	**(2)**	**193**

(a) The amounts at 31 December 1995 have been extracted from the audited accounts of The Rank Organisation Plc and restated to the historical cost basis by eliminating the effect of previous property valuations.

(b) Included in interests in associates is £193m (1995 restated £189m) in respect of the Group's 50% interests in the Universal City Florida, Universal City Development and Universal Rank Hotel partnerships. These amounts include £19m (1995 £16m) net interest capitalised.

	Universal City Florida		Rank Xerox companies	Others	
Share of retained profit for the period	1996 £m	1995 Proforma £m	1995 Proforma £m	1996 £m	1995 Proforma £m
Share of profits less losses before taxation	14	10	187	–	(1)
Share of taxation (note 5)	–	–	(75)	–	–
	14	10	112	–	(1)
Dividends and distributions receivable by the Group	(14)	(10)	(52)	–	–
Profits less losses for the period less dividends receivable	–	–	60	–	(1)
Minority interests	–	–	(1)	–	–
Amounts retained attributable to shareholders of the Company	–	–	59	–	(1)

No 1996 figures are given for the Rank Xerox companies as the Group's holding has been accounted for as an investment throughout 1996.

Details of principal associated undertakings are given on page 85.

Notes to the Accounts

14 OTHER INVESTMENTS

	Group 1996 £m	Group 1995 Proforma £m	Company 1996 £m
Balances at 31 December 1995	–	–	–
Transferred from associated undertakings (note 13)	**432**	–	–
Revaluation adjustment (b)	**498**	–	–
Additions (e)	**1**	–	1
Balances at 31 December 1996	**931**	–	1

(a) The investment in the Rank Xerox companies has been transferred from associated undertakings. The Directors now consider that the investment is no longer held for the long term and that the Group's role in the management of the Rank Xerox companies and Fuji Xerox has been reduced. Accordingly, it is no longer appropriate to account for the investment as an associate.

(b) The Group's investment in the Rank Xerox companies was revalued by the Directors to £930 million, the value implied by the transaction in 1995 with Xerox Corporation (in which the Group secured £620 million for [illegible] 40% share of the interest held at that time). The Directors believe that this gives a fairer reflection of the value of the investment.

(c) In 1996, dividends receivable from the Rank Xerox companies were £49m gross (£39m net of Advance Corporation Tax). Details of the Rank Xerox companies are given on pages 86 and 87.

(d) The historical cost of the Group's interest in the Rank Xerox companies is £15m. At 1 January 1996, the date on which the Group ceased to equity account for this interest, the total book value was £432m.

(e) Other investments include £1m in respect of 145,739 (1995 NIL) Ordinary shares in The Rank Group Plc held by The Rank Group Plc Employee Benefit Trust. The Trust also holds options to subscribe for up to 3,500,000 (1995 NIL) Ordinary shares exercisable by 2006. Dividends on the shares held have been waived by the trustees with the exception of [illegible] penny in total. The Trust may make such investments in the shares of the Company or otherwise as the trustee or trustees may determine to provide benefits to any eligible employee. The benefits may be provided in the form of shares, cash or otherwise although any share related benefit will be provided in accordance with an appropriate employee share scheme or bonus scheme of the Company. None of the shares are under option to employees and none have been conditionally gifted to them.

15 STOCKS

	Group 1996 £m	Group 1995 Proforma £m
Raw materials and consumables	**35**	36
Work in progress	**3**	18
Finished goods and goods for resale	**30**	42
Film productions	**22**	17
Completed properties for resale	**28**	15
Property developments in progress	**6**	23
	124	151

16 DEBTORS

	Group		Company
	1996	[redacted] Proforma	1996
	£m	£m	£m
Amounts falling due within [redacted] year			
Trade debtors	**137**	180	–
Other debtors	**44**	30	–
Assets held for disposal	**8**	7	–
Prepayments and accrued income	**91**	99	–
Instalment sale debtors	**11**	11	–
Notes receivable	**12**	11	–
Advance Corporation Tax recoverable	**9**	–	–
	312	338	–
Amounts falling due after more than one year			
Trade debtors	**7**	8	–
Other debtors	**20**	16	–
Prepayments and accrued income	**49**	27	–
Instalment sale debtors	**58**	59	–
Notes receivable	**74**	70	–
Advance Corporation Tax recoverable	**27**	23	**27**
	235	203	**27**

17 CASH, DEPOSITS AND CURRENT ASSET INVESTMENTS

	Group		Company
	19[redacted]	1995 Proforma	1996
	£m	£m	£m
Cash, current accounts and overnight deposits	**44**	58	–
Term deposits	**14**	238	–
	[redacted]	296	–
Current asset investments	**19**	17	–
Cash, deposits and current [redacted] investments (note 27)	**77**	313	–

Current asset investments comprise amounts placed with external fund managers. The majority of the investments could be converted into cash within 7 days and the remainder within 30 days. The investments are with counter parties with strong credit ratings.

Notes to the Accounts

18 LOAN CAPITAL AND BORROWINGS

	Group	
	1996 £m	1995 Proforma £m
Bank overdrafts	7	12
Bank loans repayable:		
Within one year or on demand	72	3
Between one and two years	42	–
Between two and five years	368	–
In five years or more	–	132
	482	135
Other borrowings repayable:		
Within one year or on demand	39	48
Between one and two years	62	43
Between two and five years	270	266
In five years or more – by instalment	147	235
	518	592
Total	1,007	739
Secured	1	14
Unsecured	990	701
Obligations under finance leases	16	24
Total	1,007	739
Amounts due within one year or [redacted] demand	118	63
Amounts due after more than one year	889	676
Loan capital and borrowings (note 27)	1,007	739

Certain borrowings are secured by either fixed or floating charges on various assets and certain subsidiary undertakings.

Borrowings shown above include:

(a) borrowings repayable by instalments any instalment of which falls due after five years totalling £313m (1995 £364m) for the Group and £NIL for the Company, with an average rate of interest payable of 9.9% (1995 8.6%),

(b) £99m (1995 £99m) for the Group in respect of an 8⅞% eurosterling bond redeemable at par in 2000, and

(c) bank loans repayable between one and five years of £410m (1995 £NIL) for the Group and £NIL for the Company have been classified according to the term of the committed facility under which they have been borrowed, although they are repayable within one year.

18 LOAN CAPITAL AND BORROWINGS continued

Financial Instruments

A description of the policies relating to financial instruments is set out in the Operating and Financial Review on page 51.

(a) Interest risk management

Approximately 40% of the Group's underlying borrowings are at fixed rates. The Group uses interest rate swaps to manage the level of floating rate debt to a pre-defined proportion of net debt.

At 31 December 1996, the Group had one US dollar denominated interest rate swap with a notional principal of $42m designed to float a rate of interest and maturing in 2002. In addition, the Group had several sterling denominated swaps with an aggregate notional principal of £100m designed to float a rate of interest and maturing in 2000.

At 31 December 1996, the Group's net debt was 30% denominated in sterling, 59% in US dollars with the balance in a mix of currencies. After taking into account interest rate swaps, 42% of the Group's net debt are fixed rate, with a weighted average interest rate of 9.6% and a weighted average term of 5.2 years.

(b) Exchange risk management

The Group hedges its exposure to the translation of foreign currency net assets using foreign currency borrowings. The table below compares the Group's net assets by currency with the Group's net debt in the same currency.

	Net assets £m	Net debt £m
Sterling	2,043	281
US dollars	628	553
Canadian dollars	30	40
Spanish pesetas	30	43
Other currencies (net)	21	13
	2,752	930

The Group hedges estimated foreign currency transactional cash flows over a 12 month timeframe using foreign exchange contracts. In addition, the Group also hedges varying percentages of the estimated US dollar receipts by Group companies outside the USA over a 5 year timeframe, the percentages reducing over the 5 years.

At 31 December 1996, as a result of the transactional exposure cover outlined above, the Group had outstanding gross foreign exchange contracts equivalent to approximately £133m. The contracts have maturities ranging to 2001 with an average maturity of 14 months from the balance sheet date.

Notes to the Accounts

18 [illegible] CAPITAL AND BORROWINGS continued

(c) Fair values

The estimated fair values of borrowings and the associated derivative financial instruments at 31 December 1996 are set out below. The fair value of quoted borrowings are based on year end mid-market quoted prices. The fair values of other borrowings and the derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end.

	Net carrying [illegible] £m	Estimated fair value £m
Borrowings	(1,007)	(1,055)
Interest rate swaps	–	10
Foreign exchange contracts	–	(4)

The estimated fair values of cash at bank and in hand and current asset investments are not materially different from their carrying values.

The difference between net carrying amount and estimated fair value reflects unrealised gains or losses inherent in the instrument based on valuations at 31 December 1996. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

(d) Credit risk

The counterparties to the interest rate swaps, forward exchange contracts and term deposits are major international financial institutions with strong credit ratings. The Group continually monitors its positions and the credit ratings of its counterparties.

19 OTHER CREDITORS

	Group		Company
	1996 £m	1995 Proforma £m	1996 £m
Payments received on account	8	15	–
Trade creditors	132	159	–
Amounts owed to subsidiary undertakings	–	–	1
United Kingdom corporation tax	49	16	–
Overseas taxation	3	4	–
Advance Corporation Tax	35	20	27
Other tax and social security	16	14	–
Other creditors	61	72	–
Accruals and deferred income	124	128	–
Accrued dividends	8	8	8
Proposed final dividend on Ordinary shares	100	92	100
	536	528	136
Amounts falling due after more than one year			
Other creditors	9	5	–
Accruals and deferred income	9	7	–
	18	12	–

[redacted] PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred taxation £m	Acquisition provisions £m	Other provisions £m	Total £m
Balances at 31 December 1995 as previously stated	11	2	13	26
Prior year adjustment (note 22)	(1)	–	–	(1)
As restated	10	2	13	25
Currency translation adjustment	–	–	(1)	(1)
Arising on the acquisition of subsidiaries	–	2	–	2
Disposals	–	–	(2)	(2)
Charged (released) to the profit and loss account in the year	(14)	(1)	47	32
Advance Corporation Tax	13	–	–	13
Utilised during the year	–	(1)	(5)	(6)
Balances at 31 December 1996	**9**	**2**	**52**	**63**

Other provisions at 31 December 1996 principally represent restructuring and reorganisation costs.

21 DEFERRED TAXATION

	Provided		[redacted] provided (recognised)	
	Group		Group	
	1996 £m	1995 Proforma £m	1996 £m	1995 Proforma £m
Capital allowances	**15**	19	**(2)**	51
Other timing differences	**(6)**	4	**–**	4
	9	23	**(2)**	55
Advance Corporation Tax	**–**	(13)	**(17)**	(41)
	9	10	**(19)**	14

The above figures exclude:

(a) taxation payable in the event of the accumulated reserves of certain overseas subsidiary and associated undertakings being distributed as there is no present intention to distribute them, and

(b) taxation payable on capital gains which might arise from the sale of certain investments at the values at which they are stated in the Group's balance sheet.

Notes to the Accounts

22 CAPITAL AND RESERVES

	1996			1995 Proforma		
	Authorised	Issued and fully paid		Authorised	Issued and fully paid	
		[illegible]	Nominal Value		Number	Nominal Value
	£m	m	£m	£m	m	£m
US$ Cumulative Preference shares	3	–	–	3	–	–
Convertible Cumulative Redeemable Preference shares of 20 pence each	60	227.5	45	60	227.6	46
Ordinary shares of 10 pence each	120	836.6	84	109	832.6	83
	183		129	172		129

The share capital at 31 December 1995 relates to The Rank Organisation Plc. As set out in Accounting Policy 1, the Company was incorporated on 22 December 1995 with an issued share capital of £2 and an authorised share capital of £50,000. The authorised share capital was increased by Special Resolution passed on 7 August 1996 to £180 million and US$5 million. On 7 October 1996 it acquired 100% of the issued shares of The Rank Organisation Plc pursuant to a scheme of arrangement under S.425 Companies Act 1985.

The table above relates to the Ordinary and Convertible Redeemable Preference shares ("Preference shares") of The Rank Organisation Plc up to and including 6 October 1996 and to the Ordinary and Preference shares of the Company thereafter. Under a scheme of arrangement pursuant to S.425 Companies Act 1985 Ordinary and Preference shares in The Rank Organisation Plc were replaced by an identical number of Ordinary and Convertible Preference shares in the Company.

Share options

Following the scheme of arrangement, certain options over Ordinary shares in The Rank Organisation Plc were replaced by options over Ordinary shares in the Company. Other options over Ordinary shares in The Rank Organisation Plc remain outstanding which, if exercised, will result in the allotment of Ordinary shares in the Company. The last date for exercise of such options is 2 April 1997, but option holders may elect to exchange options outstanding under executive share option schemes over Ordinary shares in The Rank Organisation Plc for options over an equal number of Ordinary shares in the Company on this date.

Under the Share Savings Scheme approved by shareholders on 14 March 1985 and the 1995 Share Savings Scheme approved by shareholders on 28 February 1995, employees hold options to subscribe for up to 3,228,153 (1995 7,273,866) Ordinary shares at prices between 194.78p and 342p per share exercisable by 2001.

Under the Executive Share Option Scheme, approved by shareholders on 14 March 1985 and the 1995 Executive Share Option Scheme approved by shareholders on 28 February 1995, Directors and executives hold options to subscribe for up to 13,457,663 (1995 11,167,464) Ordinary shares at prices ranging between 243.08 pence and 484.5 pence per share exercisable by 2007. Under the Overseas Executive Share Option Plan approved by shareholders on 15 March 1989, executives hold options to subscribe for up to 1,889,116 (1995 2,956,267) Ordinary shares at prices ranging between 234.8 pence and 476.5 pence per share exercisable by 2005.

Options granted under the share savings schemes are exercisable normally within a period of six months after the fifth anniversary of the SAYE contracts. Options granted under the executive share option schemes [illegible] exercisable within a period normally commencing on the third anniversary and ending on the tenth anniversary of the date of the grant.

Non-equity shareholders' funds

Non-equity shareholders' funds relate entirely to the Convertible Redeemable Preference shares ("Preference shares"). These shares carry an entitlement to [illegible] dividend at the rate of 8.25 pence (net) per share per annum. They are convertible in any of the years up to 2003 into Ordinary shares of 10 pence each at a rate equivalent to 27.09 Ordinary shares for every 100 Preference shares and may be redeemed at £1 per share at any time after 30 April 2003 at the option of the Company and, in any event, will be redeemed at £1 per share on 31 July 2007. Holders of the Preference shares have one vote for every five shares held but only on [illegible] resolution for the winding-up of the Company or on a resolution affecting the rights attached to the shares or if the Preference Dividend has remained unpaid for six months. Holders of Preference shares have the right on a winding-up to receive, in priority to any other class of shares, the sum of £1 per share together with any arrears of dividend.

22 CAPITAL AND RESERVES continued

Share capital and share premium account

	Share capital			Share premi[redacted] account
	Preference £m	Ordinary £m	Total £m	£m
Balances at 31 December 1995	46	83	129	–
Issue of Ordinary shares in the year	–	1	1	1
Conversion of Preference shares	(1)	–	(1)	–
Balances at 31 December 1996	**45**	**84**	**129**	**1**

20,928 Ordinary shares were issued on 10 June 1996 by virtue of the conversion of 77,257 Preference shares. A further 3,979,745 Ordinary shares were issued during the year on the exercise of options.

Revaluation [redacted]

	Company [redacted] its subsidiaries [redacted]	Associated under-takings £m	Group £m
Balances at 31 December 1995 as previously stated	153	33	186
Prior year adjustment:			
– Fixed assets (notes 9 and 13)	(154)	(33)	(187)
– Deferred taxation (note 20)	1	–	1
As restated	–	–	–
Surplus on revaluation of investment in the Rank Xerox companies (note 14)	498	–	498
Balances at 31 December 1996	**498**	**–**	**498**

Other reserves

	Company and its subsidiaries		Associated under-takings	Group
	Preference [redacted]tion £m	Other £m	£m	£m
Group				
Balances at 31 December 1995	–	1,274	413	1,687
Reclassification of associates' reserves	–	415	(415)	–
Currency translation adjustments	–	(28)	–	(28)
Share premium on the issue of shares in The Rank Organisation Plc up to 6 October 1996	–	9	–	9
Deficit on profit and loss account for the year	–	(197)	–	(197)
Provision for redemption premium	1	1	–	2
Elimination of goodwill arising in the year	–	(368)	–	(368)
Goodwill realised on disposals	–	63	–	63
Balances at 31 December 1996	**1**	**1,169**	**(2)**	**1,168**

Of the £28m loss on other net currency translation adjustments, a loss of £1m arises from the translation of foreign currency borrowings less deposits. The total cumulative goodwill eliminated against reserves at 31 December 1996 amounted to £1,032m (1995 £773m).

Notes to the Accounts

[redacted] CAPITAL AND [redacted] continued

Other reserves

	Preference redemption £m	Other £m	Total £m
Company			
Balances at 31 December 1995	–	–	–
Arising on acquisition of shares	–	167	167
Surplus on profit and loss account for the year	–	198	198
Provision for redemption premium	1	–	1
Balances at 31 December 1996	**1**	**365**	**366**

23 ANALYSIS [redacted] MINORITY [redacted]

	Equity £m	Non-equity £m	Total £m
Balances at 31 December 1995	–	25	25
Minority interest in the profit on ordinary activities after tax	1	2	3
Dividends payable to minority shareholders	–	(2)	(2)
Balances at 31 December 1996	**1**	**25**	**26**

The non-equity minority shareholders have no rights against Group companies other than the issuing entity, except in the event that the issuer defaults. In such circumstances, a put option exists to require The Rank Organisation Plc to purchase the shares at par.

24 RECONCILIATION OF OPERATING PROFIT TO [redacted] FLOWS

	1996 £m	1995 Proforma £m
Operating profit	**113**	256
Provision for permanent diminution of operating assets	**148**	–
Other exceptional operating costs and provisions	**47**	–
Cash payments in respect of other exceptional operating costs and provisions	**(6)**	–
Depreciation	**126**	111
(Profit) less loss on sale of tangible fixed assets	**–**	(1)
(Increase) decrease in stocks	**(20)**	23
(Increase) in debtors	**(82)**	(110)
Increase (decrease) in creditors	**(8)**	57
Other items	**(1)**	(4)
Net cash inflow from operating activities	**317**	332

25 PURCHASE OF SUBSIDIARIES AND MINORITIES

	1996 £m	1995 Proforma £m
Tangible fixed assets	101	–
Net current liabilities excluding cash	(9)	(1)
Net assets (liabilities)	92	(1)
Loans and finance leases	(40)	–
Net book amount of minority interest acquired	–	18
	52	17
Goodwill (provisional)	368	49
	420	66

Satisfied by:	1996 £m	1995 Proforma £m
Cash paid	410	65
Less: cash acquired with subsidiaries	(1)	–
Cash outflow on purchase of subsidiaries and minorities	409	65
Issue of Ordinary shares	–	1
Loan notes issued	11	–
Consideration	420	66

	1996 Acquisitions			
	Net assets £m	Loans & [redacted] leases £m	[redacted] £m	Consideration £m
Hard Rock business previously owned by Peter Morton and partners	3	–	256	259
Tom Cobleigh plc	67	(25)	56	98
Hard Rock Cafe Canada	1	–	38	39
Duplico Group	20	(15)	9	14
Others	1	–	9	10
	92	(40)	368	420

There were no material differences between the book values of assets and liabilities in the acquired entities' books immediately before acquisition and the fair values in the table above.

Notes to the Accounts

SALE OF BUSINESSES AND INVESTMENTS

	1996 £m	1995 Proforma £m
Net assets disposed of:		
Tangible fixed assets	189	20
Interests in associated undertakings	2	257
Stocks	44	5
Debtors	74	3
Creditors	(75)	(1)
	234	284
Goodwill previously eliminated against reserves	63	45
Profits less losses on disposal before tax (net)	(51)	283
Sales consideration	246	612
Consisting of:		
Sales proceeds less related costs	255	618
Cash disposed of with subsidiaries	(4)	–
Cash inflow from sale of businesses and investments	251	618
Accrual for future related costs	(5)	(9)
Add: deferred consideration receivable	–	3
	246	612

27 RECONCILIATION TO NET DEBT

	1996 £m	1995 Proforma £m
(Decrease) increase in cash in the year	(231)	197
(Increase) decrease in debt and lease financing	(259)	247
Increase in liquid resources (a)	2	14
(Increase) decrease in net debt from cash flows	(488)	458
Loans and finance leases acquired with subsidiary	(40)	–
Loan notes issued	(11)	–
New finance leases	(10)	(12)
Foreign exchange differences	45	(6)
(Increase) decrease in net debt in year	(504)	440
Net debt at 1 January	(426)	(866)
Net debt at 31 December	(930)	(426)
Cash, deposits and current asset investments (note 17)	77	313
Loan capital and borrowings (note 18)	(1,007)	(739)
Net debt at 31 December	(930)	(426)

(a) The net increase in liquid resources consisted of purchases of deposits and investments of £54m (1995 £14m) and sales of £52m (1995 £NIL).

ANALYSIS OF NET DEBT

	31 December 1995 Proforma £m	Cash inflow [redacted]	Acquisitions [redacted] cash & overdrafts) £m	Other non-cash changes £m	Foreign exchange differences £m	31 December 1996 £m
Cash in hand, at bank	296	(236)	–	–	(2)	**58**
Overdrafts	(12)	5	–	–	–	**(7)**
		(231)				
Debt due after one year	(661)	(249)	(47)	38	42	**(877)**
Debt due within one year	(42)	(32)	–	(38)	5	**(107)**
Finance leases	(24)	22	(4)	(10)	–	**(16)**
		(259)				
Liquid resources	17	2	–	–	–	**19**
Total	(426)	(488)	(51)	(10)	45	**(930)**

Liquid resources comprise current asset investments which, as described in note 17, represent amounts readily convertible into cash.

29 DIRECTORS

(a) Directors' Interests

Directors' interests relate to the Ordinary and convertible preference shares of The Rank Organisation Plc up to and including 6 October 1996 and to the Ordinary and convertible preference shares of the Company thereafter. Under a scheme of arrangement pursuant to S. 425 Companies Act 1985 Ordinary and convertible preference shares in The Rank Organisation Plc were replaced by an identical number of Ordinary and convertible preference shares in the Company.

Following the scheme of arrangement, certain options over Ordinary shares in The Rank Organisation Plc were replaced by options over Ordinary shares in the Company. Other options over Ordinary shares in The Rank Organisation Plc remain outstanding which, if exercised, will result in the allotment of Ordinary shares in the Company. The last date for exercise of such options is 2 April 1997, but option holders may elect to exchange options outstanding under executive share option schemes over Ordinary shares in The Rank Organisation Plc for options over an equal number of Ordinary shares in the Company on this date.

The Directors' interests in shares or stocks of the Company, or The Rank Organisation Plc, including options to purchase Ordinary shares under the terms of the Group's executive share option schemes and share savings schemes are detailed in the Report of the Remuneration Committee together with details of options to subscribe for Ordinary shares of the Company (and, where applicable, The Rank Organisation Plc) granted to and exercised by Directors, or which lapsed, in the year ended 31 December 1996.

The market price of an Ordinary share at 31 December 1996 was 435.5 pence and the range during the preceding twelve months was 403.5 pence to 545 pence. For the preceding twelve months, the options outstanding at 31 December 1996 were exercisable at varying dates between 2 October 1996 and 15 August 2004 (on the assumption that options over Ordinary shares in The Rank Organisation Plc outstanding under executive share option schemes are replaced by options over Ordinary shares in the Company). The only changes in Directors' interests between 1 January 1997 and the date of this report are that Mr. A. H. Teare was granted an option over 195,647 Ordinary shares on 21 February 1997 at an exercise price of 436.5 pence per share and Mr. N. V. Turnbull purchased 5,000 Ordinary shares on 26 February 1997.

In addition to the above interests, pursuant to the requirements of the Companies Act 1985, each executive Director is deemed to be interested in the Ordinary shares and options over Ordinary shares in the Company held by The Rank Group Plc Employee Benefit Trust. As at the date of this report and 31 December 1996, the interest was in [redacted] total of 145,739 Ordinary shares and an option over 3,500,000 Ordinary shares and at 1 January 1996 it was in nil shares and nil options.

Notes to the Accounts

[redacted] continued

(b) Total emoluments of the Directors of The Rank Group Plc

	1996 £000	[redacted] Proforma £000
Fees	**170**	135
Basic salaries, allowances and taxable benefits	**1,897**	1,930
Bonuses	**411**	596
Pension contributions	**458**	203
Compensation for loss of office	**370**	–
Total emoluments	**3,306**	2,864
(c) Emoluments of Chairman	**268**	263
(d) Emoluments of highest paid Director (including pension contributions)	**560**	650

The figure for 1995 includes £209,000 for Sir Denys Henderson for the period from 1 March 1995, his date of appointment as Chairman, and £54,000 for Sir Leslie Fletcher up to his retirement as Chairman on 28 February 1995.

(e) The table which follows shows the number of Directors of The Rank Group Plc, including the Chairman and highest paid Director, whose emoluments (exclusive of pension contributions) during the period were within the bands stated:

Emoluments [redacted]	Directors 1996	Directors 1995 Proforma
5,001 – 10,000	1	1
20,001 – 25,000	4	4
25,001 – 30,000	2	1
50,001 – 55,000	–	1
110,001 – 115,000	1	–
155,001 – 160,000	1	–
195,001 – 200,000	1	–
210,001 – 215,000	–	1
225,001 – 230,000	–	1

Emoluments [redacted]	Directors 1996	Directors 1995 Proforma
265,001 – 270,000	1	–
275,001 – 280,000	–	1
280,001 – 285,000	1	1
285,001 – 290,000	1	–
290,001 – 295,000	–	2
295,001 – 300,000	1	1
320,001 – 325,000	1	–
385,001 – 390,000	1	–
590,001 – 595,000	–	1

(f) Company policy on the remuneration of Directors and details of the remuneration of each Director are set out in the Report of the Remuneration Committee on pages 39 to 43.

EMPLOYEES

Employee costs

	1996 £m	1995 Proforma [illegible]
Wages and salaries	**439**	406
Social security costs	**33**	31
Other pension costs	**10**	10
	482	447

Average number of employees by geographical [illegible]

	1996	[illegible] Proforma
United Kingdom	**30,329**	27,808
North America	**8,522**	6,733
Rest of the World	**1,434**	930
Continuing operations	**40,285**	35,471
Discontinued operations	**3,193**	3,634
Average in year	**43,478**	39,105

Provision for Pension and Similar Obligations

United Kingdom

The Group has two pension schemes for UK employees both of which are contracted-out of the State Earnings Related Pension arrangements. The schemes are externally funded under separate trusts and the funds' assets are held separately from Group assets. The accounts of both schemes for the year ended 5 April 1996 have been reported upon by their auditors without qualification.

The Rank Pension Plan is a defined benefit scheme with pensions fixed by reference to final pay and length of service. The market value of the funds' assets at 5 April 1996 was £388m (1995 £309m) excluding the value of annuities purchased to match pensions in payment.

Formal actuarial valuations of the Plan are carried out triennially by an independent actuary. Following their appointment as independent actuary in May 1995, William M. Mercer Limited carried out a review as at 5 April 1995 using the projected unit method. The actuarial value of the assets was sufficient to cover 106% of the accrued benefits allowing for expected future increases in earnings. The main actuarial assumptions adopted were that, over the long term, the annual rate of return on investments would be 3% higher than the annual increase in pensionable remuneration and 7% higher than the annual increase in pensions.

The pension charge for the year to 31 December 1996 was £4m (1995 £4m). The charge was determined after spreading £6m (1995 £6m) of the actuarial surplus over the average remaining service lives of the active members of the Plan.

The actual Group cash contributions to the Plan in the year to 31 December 1996 totalled £10m (1995 £10m). At 31 December 1996 there was a prepayment in debtors of £12m (1995 £6m) resulting from the difference between pension costs charged in the accounts and amounts funded to date.

The Rank Money Purchase Pension Scheme is a defined contribution scheme with benefits which depend on the contribution levels and the emerging investment performance. The market value of its assets at 5 April 1996 was £22m (1995 £18m). Group contributions to this Scheme in the year to 31 December 1996 totalled £2m (1995 £2m).

USA

The Group operates defined contribution schemes in the USA. The market value of their combined assets at 31 December 1996 was £40m (1995 £41m). Group contributions to these schemes totalled £4m (1995 £4m).

Other countries

Group contributions to schemes for employees in other countries totalled £NIL (1995 £1m).

Notes to the Accounts

31 CONTINGENT LIABILITIES

Group

	1996 £m	1995 Proforma £m
Guarantees by the Company and by subsidiary undertakings, bills discounted by Group companies and uncalled liability in respect of partly paid shares	120	68

The Company is involved in a dispute with Serena Holdings Limited over the purchase consideration of an acquisition which has been referred to an expert for determination. The dispute centres upon the parties' contentions in relation to the accounts and the profits of the businesses based upon which an additional purchase consideration may be payable. The Directors are strongly resisting the payment of any further sum. At the present time the outcome to the Company cannot be determined and the potential liability cannot be quantified. However, it is the opinion of the Directors that it is unlikely that the outcome of this dispute will have a material effect on the Company's financial position.

As a result of the scheme of arrangement following which The Rank Group Plc acquired 100% of the issued share capital of The Rank Organisation Plc on 7 October 1996, it is possible that further liabilities other than those provided for in these accounts may arise. No provision has been made for these liabilities at 31 December 1996 as, in the opinion of the Directors, it is unlikely that they will occur.

A subsidiary undertaking is involved in class action suits in the USA. The actions are being vigorously contested and the Directors believe that none of these actions will result in a material adverse effect on the financial condition of the Group.

Company

	1996 £m
Guarantees of advances to subsidiary undertakings, bills discounted and uncalled liabilities in respect of partly paid shares	426

No security has been given in respect of any contingent liability.

32 RELATED PARTY TRANSACTIONS

The Group recharges The Rank Group UK Pension Schemes with the costs of administration and independent advisers borne by the Group. The total amount recharged in the year ended 31 December 1996 was £1,112,000 (1995 £1,016,000).

In December 1996 the Group sold the Shearings businesses (UK and continental coach holidays and UK holiday hotels) for a consideration of £75 million to Shearings Group Limited, a new company formed by NatWest Ventures Limited, and Shearings' management team. Mr. H. A. Crichton-Miller was a Director of The Rank Organisation Plc until 11 July 1996 and became a Director of Shearings Group Limited on 18 December 1996.

Principal Subsidiary Undertakings

Except where otherwise stated The Rank Group Plc ("Rank") owns indirectly 100% of the ordinary share capital and voting rights of the following companies. There are also holdings of preference shares which are separately disclosed. The companies are incorporated in Great Britain unless otherwise indicated after the company name. The principal operations are carried out in the country of registration.

[redacted] AND ENTERTAINMENT SERVICES	Principal activities
Deluxe Laboratories Inc. (USA)	Film processing laboratory
Deluxe Toronto Limited (Canada)	Film processing laboratory
Pinewood Studios Limited	Film production studios, post-production facilities and services
Rank Film Distributors Limited	Investment in and international distribution of feature films
Rank Film Laboratories Limited	Film processing laboratory
Rank Video Services America Inc (USA)	Video duplication
Rank Video Services GmbH (Germany)	Video duplication
Rank Video Services Iberia, S.L. (Spain)	Video duplication
Rank Video Services Limited	Video duplication

[redacted]	
Hard Rock Cafe International Inc (USA)	Operates and franchises Hard Rock cafes worldwide

HOLIDAYS	
Butlin's Limited *(Rank also owns indirectly all the 6% cumulative preference shares)*	Holiday Worlds and holiday hotels
Haven Leisure Limited	Caravan/chalet parks in the UK, France, Spain and Italy
Oasis Villages Limited	Holiday villages
ParkWorld Holidays Limited	Management of Butlin's and Haven operations
Resorts USA Inc (USA)	Outdoor World holiday memberships at caravan park resorts, the sale of timeshares, second homes and land
Warner Holidays Limited	Holidays just for adults

LEISURE	
Grosvenor Casinos Limited	London and provincial casinos
Odeon Cinemas Limited	Film exhibition
Rank Leisure Limited	Operation and development of multi-leisure centres and nightclubs
Rank Leisure Machine Services Limited	Amusement machine hire and sales
Tom Cobleigh plc	Operation and development of a managed public house estate
Top Rank Limited	Social and bingo clubs

Principal Subsidiary Undertakings

HOLDING [redacted] OTHER COMPANIES	Principal activities
Rank America Inc (USA)	Owns the Group's investments in the USA
Rank Group Finance Plc	Funding operations for the Group
Rank Holding España SA (Spain)	Owns the Group's investments in Spain
Rank Holdings France SA (France)	Owns the Group's investments in France
Rank Holdings Germany GmbH (Germany)	Owns the Group's investments in Germany
Rank Holdings (Netherlands) BV (Netherlands)	Owns the Group's investments in Rank America Inc. and other overseas subsidiary undertakings
Rank Leisure Holdings Plc *(Rank [redacted] 100% indirectly of the ordinary shares, none of the cumulative redeemable preference shares and 100% of the voting rights)*	Owns the Group's investments in the UK operating subsidiary undertakings and Rank Overseas Holdings Limited
Rank Orlando Inc (USA)	Owns the Group's investments in Universal City Florida Partners
Rank Orlando II Inc (USA)	Owns the Group's investments in Universal City Development Partners
Rank Overseas Holdings Limited	Owns 100% of Rank Holdings (Netherlands) BV
Rank Investments Limited	Owns 50% of the share capital of Rank RX Holdings Limited
Rank RX Holdings Limited	Owns the Group's investment in Rank RX International Limited
Rank RX International Limited *(Rank owns 100% indirectly of the 'A' shares and 19.8% indirectly of the 'B' shares and 59.9% of the voting rights)*	Owns the Group's investment in the Rank Xerox companies
The Rank Organisation Plc	Owns all of the Group's investments

A full list of subsidiary undertakings will be included in the Company's Annual Return.

Principal Associated Undertakings

UNIVERSAL CITY FLORIDA

In the segmental analysis set out on pages 60 and 61, the Group's interests in Universal City Florida Partners are referred to as Universal Studios Florida, and the interest in Universal City Development Partners and Universal Rank Hotel Partners are referred to as "Universal City Florida developments." All three partnerships are 50% owned joint ventures between the Group and Universal Studios Inc. and the theme park operations are managed by Universal Studios Inc.

Universal City Florida Partners operates Universal Studios Florida, a television and film studio and motion picture theme park in Orlando, Florida. The other two partnerships, referred to below as the "development partnerships", were formed to develop an 821 acre site in Orlando, Florida on which is situated Universal Studios Florida and on which will be constructed a second theme park, an entertainment zone and associated infrastructure.

A summary of the financial statements of the three partnerships and the Group's share thereof is set out below:

	1996 £m	1995 £m
Profit and loss account		
Turnover	**223**	202
Depreciation and amortisation	**(36)**	(38)
Other costs	**(149)**	(134)
Operating profit	**38**	30
Net interest payable	**(10)**	(11)
Profit before tax	**28**	19
Group share of Universal Studios Florida	**14**	10

	28 December 1996 £m	30 December 1995 £m
Balance sheet		
Fixed assets	**583**	476
Net current assets (liabilities)	**1**	(2)
Net borrowings	**(311)**	(212)
Net assets of Universal Studios Florida	**273**	262
Group share of net assets	**136**	131
Additional Group investment	**57**	58
Total carrying value	**193**	189
Of which:		
Universal Studios Florida	**129**	138
Development partnerships	**64**	51

The accounting date for the three partnerships is 28 December 1996. The partnerships are registered in the United States of America.

Principal Investment

RANK XEROX

Rank Xerox is composed of four parent companies owned by Xerox Corporation and Rank RX International Limited ("RRXIL"). Rank owns approximately 60% of the voting rights of RRXIL and Xerox Corporation owns the remainder. Xerox Corporation has majority voting rights in all of the parent companies. Details of Rank's profit participation are given on page 87.

RRXIL has been excluded from consolidation on the grounds that the shareholder agreement entered into with the Xerox Corporation following its purchase of an interest in RRXIL places restrictions on the Group's ability to exercise its rights over the Company's assets, namely its interest in the Rank Xerox companies. RRXIL is accounted for under the equity method.

RRXIL's interests in the four Rank Xerox parent companies are:

	Country of registration	Percentage voting interest	Class of capital owned
Rank Xerox Limited	England	48.8	'B' Ordinary
			'D' Ordinary
Rank Xerox Holding BV	Netherlands	48.8	'B' Ordinary
			'C' Ordinary
Rank Xerox Investments Limited	Bermuda	49.0	'B' Ordinary
R-X Holdings Limited	Bermuda	33.3	'B' Ordinary

Principal activities

The business of Rank Xerox and its associates is research, development, manufacture, marketing and maintenance of document processing systems and equipment. This includes copiers and duplicators, laser printers, scanners, electronic typewriters, facsimile machines, workstations, and related supplies. It is also active in financing through its leasing operations. Rank Xerox has its principal manufacturing operations in the United Kingdom, France and the Netherlands. Its principal associated undertaking is Fuji Xerox Co. Limited, a company incorporated in Japan, which is 50% owned by Rank Xerox Limited.

Principal Investment

A summary of the combined financial statements of the Rank Xerox companies is set out below:

	1996 £m	1995 Proforma £m
Profit and loss account		
Turnover	**3,673**	3,693
Cost of sales	**(2,052)**	(2,107)
Gross profit	**1,621**	1,586
Operating expenses	**(1,096)**	(985)
Xerox Corporation charges	**(125)**	(143)
Income from associated undertakings	**181**	173
Operating profit	**581**	631
Net interest payable	**(11)**	(15)
Profit before tax	**570**	616
Tax	**(284)**	(253)
Minority interests	**(3)**	(2)
Profit for the financial year	**283**	361

	31 December 1996 £m	31 December 1995 £m
Share capital and reserves	**2,090**	2,141

Profit participation

Under an agreement with Xerox Corporation made in 1977, the Group, through RRXIL, is entitled to a share in the combined profits before taxation of all the Rank Xerox companies owned jointly with Xerox Corporation. RRXIL's share amounts to one half of such profits up to a maximum sum of £3.7m plus one third of the amount by which such profits exceed £7.4m from which is deducted the related taxation. For this purpose, the combined profit before tax as shown above is adjusted for charges made by Xerox Corporation for research and development and corporate overhead costs and for profit participation adjustments in accordance with the above agreement. The Group's underlying share in the participation profit is approximately 20%. The participation profit is calculated as follows:

	1996 £m	1995 Proforma £m
Profit after restructuring costs and before taxation of the Rank Xerox companies	**570**	616
Add: Xerox Corporation charges	**125**	143
Add: Profit participation adjustments	**84**	89
Deduct: Minority interests	**(3)**	(2)
Profit before tax for participation purposes	**776**	846
Group share of profit before tax	**156**	187
Group share of gross dividend receivable	**49**	58

Five Year Review

Year ended	31 December 1996	31 December 1995 Proforma	31 December 1994 Proforma	31 October 1993 Proforma	31 October 1992 Proforma
Turnover	£m	£m	£m	£m	£m
Current operations	**1,865**	1,668	1,557	1,385	1,241
Former operations	**219**	251	278	389	452
	2,084	1,919	1,835	1,774	1,693
Operating profit before exceptional items					
Current operations	**282**	249	243	207	165
Former operations	**8**	7	(4)	(6)	13
	290	256	239	201	178
Exceptional items charged against operating profit	**(177)**	–	–	–	–
Non-operating items (including share of associates)	**(62)**	236	3	65	1
Universal City Florida	**14**	10	10	12	8
Rank Xerox before restructuring costs	**–**	187	210	151	137
Rank Xerox restructuring costs	**–**	–	(62)	–	–
Other associates	**–**	(1)	–	(1)	(1)
Dividends receivable from Rank Xerox	**49**	–	–	–	–
Interest (net)	**(49)**	(44)	(74)	(88)	(87)
Profit before tax	**65**	644	326	340	236
Tax	**(96)**	(124)	(113)	(112)	(97)
Minority interests	**(3)**	(3)	(5)	(5)	(5)
Preference dividends and appropriations	**(21)**	(21)	(21)	(21)	(21)
(Loss) earnings	**(55)**	496	187	202	113
(Loss) earnings per Ordinary share	**(6.6)p**	59.7p	22.6p	25.5p	14.3p
Earnings per Ordinary share before exceptional items	**24.1p**	31.4p	27.2p	18.6p	15.4p
Total Dividend per Ordinary share	**17.00p**	15.75p	13.25p	12.16p	12.16p

	31 December 1996	31 December 1995 Proforma	31 October 1994 Proforma	31 October 1993 Proforma	31 October 1992 Proforma
Group funds employed					
Fixed assets	**1,574**	1,518	1,396	1,372	1,387
Investments	**1,124**	622	779	779	734
Other assets (net)	**54**	127	47	164	64
Total funds employed at year end	**2,752**	2,267	2,222	2,315	2,185
Financed by					
Ordinary share capital and reserves	**1,582**	1,604	1,206	1,106	933
Preference share capital including premium	**214**	212	209	207	205
Minorities	**26**	25	48	47	45
	1,822	1,841	1,463	1,360	1,183
Net debt	**930**	426	759	955	1,002
	2,752	2,267	2,222	2,315	2,185
Average number of employees (000's)	**43.5**	39.1	39.7	41.0	42.0

The proforma results for the years 1992 to 1995 are those of The Rank Organisation Plc and its subsidiaries. These results have been restated to reflect the changes in accounting policies relating to casinos' turnover and fixed asset revaluations. In addition, operating profit has been restated to identify exceptional items separately.